GREAT RENEWAL

people•places•processes

1999 annual report

re-new (ri-nōō´, -nyōō´) *v*. 1. To make new or as if new again; restore. 2. To take up again; resume. 3. To repeat as to reaffirm. 4. To regain ([redacted]hysical vigor); revive. 5. To [redacted]tension of: renew a contract. 6. To replenish. 7. To bring into being again; re-establish. – intr. 1. To become new again. 2. To start over [re+new] – re•new´a•ble *adj*.

Table of Contents


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GARDEN COCKTAIL
Shreddies
Robin Hood
MADAGASCAR VANILLA

Comparative Highlights

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands, except per share amounts)	Fiscal 1999 (52 weeks)	Fiscal 1998 (52 weeks)	Fiscal 1997 (53 weeks)
Sales	$10,151,334	$10,179,358	$10,262,243
Income (loss) from operations	104,830	(164,391)	155,259
Income (loss) before extraordinary item	14,160	(67,164)	63,586
Net income (loss)	14,160	(67,164)	63,042
Net income (loss) per share before extraordinary item - basic and diluted	.37	(1.75)	1.66
Net income (loss) per share - basic and diluted	.37	(1.75)	1.65
Cash dividends per share	.40	.40	.40
Expenditures for property	479,572	438,345	267,623
Depreciation and amortization	232,712	233,663	234,236
Working capital	98,305	109,047	262,097
Shareholders' equity	846,192	837,257	926,632
Debt to total capitalization	54%	51%	48%
Book value per share	22.07	21.87	24.22
New store openings	54	46	40
Number of stores at year end	750	839	936
Number of franchised stores served at year end	65	55	52

NOTE: Reference should be made to "Management's Discussion and Analysis" section contained herein for details of non-recurring charges recorded in fiscal 1999 and 1998.

Company Profile

The Great Atlantic & Pacific Tea Company, Inc.

The Great Atlantic & Pacific Tea Company, Inc. ("the Company"), based in Montvale, New Jersey, operates combination food and drug stores, conventional supermarkets and limited assortment food stores in 15 U.S. states, the District of Columbia and Ontario, Canada, under the A&P, Waldbaum's, Super Foodmart, Food Emporium, Super Fresh, Farmer Jack, Kohl's, Sav-A-Center, Dominion, Ultra Food & Drug, Food Basics and The Barn Markets trade names. As of the fiscal year ended February 26, 2000, the Company operated 750 stores and served 65 franchised stores. Through its Compass Foods Division, the Company also manufactures and distributes a line of whole bean coffees under the Eight O'Clock, Bokar and Royale labels, both for sale through its own stores as well as other food and convenience retailers.

A&P at a Glance

Corporate Headquarters	Two Paragon Drive Montvale, New Jersey 07645
Mission	To Become the Supermarket of Choice * Where People Choose to Shop * Where People Choose to Work * Where People Choose to Invest
Ownership	* NYSE: GAP
Executive Management Team	* Christian Haub, President and Chief Executive Officer * Fred Corrado, Vice Chairman of the Board and Chief Financial Officer * Michael Larkin, Senior Executive Vice President and Chief Operating Officer * George Graham, Executive Vice President and Chief Merchandising Officer * William Costantini, Senior Vice President, General Counsel and Secretary * Nicholas Ioli, Jr., Senior Vice President and Chief Information Officer * Laurane Magliari, Senior Vice President, People Resources and Services * Brian Pall, Senior Vice President and Chief Development Officer * Cheryl Palmer, Senior Vice President, Strategic Marketing
Employment	* 24,400 full-time * 56,500 part-time
Size & Scope	* Annual Sales - $10 billion * 750 stores in 15 states, the District of Columbia and Ontario, Canada * 14 warehouse distribution centers * 1 coffee manufacturing plant * 65 franchise stores * Top ten food retailer in North America and one of the fifty largest retailers in the world * Operates approximately 27 million square feet of retail space
Facts & Figures	* Average store size: 38,000 square feet * Sales per selling square foot: U.S. - US$531 Canada - C$566
Store Banners	* A&P * The Barn Markets * Dominion * Farmer Jack * Food Basics * Food Emporium * Kohl's * Sav-A-Center * Super Foodmart * Super Fresh * Ultra Food & Drug * Waldbaum's
Proprietary Brands	* Eight O' Clock Coffee * Master Choice * America's Choice * Health Pride * Savings Plus * Equality * Basics for Less
History	Founded in 1859 by George Gilman and George Huntington Hartford, pioneers in consumer-oriented marketing, A&P was the nation's first supermarket chain.

great renewal

"**Our Company delivered its finest performance in a decade in fiscal 1999 ... truly a great beginning for A&P's Great Renewal."**

A Letter from Christian Haub

great renewal

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A Letter from Christian Haub

To my fellow shareholders:

Fiscal 1999 was truly a year of significant progress and renewed promise for A&P, generated by the successful first phase of our Company's Great Renewal strategy.

Our efforts to begin establishing a people-driven, customer service emphasis throughout the organization, focus our investment in core markets with the greatest potential, and accelerate our store network improvement produced A&P's best operating results since 1990.

This foundation of solid achievements was highlighted by the following:

✓ We achieved a positive comparable store sales improvement of 4.4% for the fiscal year, nearly double the supermarket industry average for the same period.

✓ We increased our market shares in Metro New York and Detroit where we are the market leaders, and New Orleans and Ontario, Canada, where we hold strong number two shares. These four core markets constitute 80% of our total Company sales.

✓ We increased ongoing operating profits by more than 50% by virtue of our improved sales trend, the closure of unproductive stores, consolidation of administrative facilities and better expense management, and improved productivity in our distribution and manufacturing operations.

✓ We added a record 54 new stores, and expanded our pipeline of future new store projects to support our continued aggressive development targets of up to 60 new stores in fiscal 2000 and approximately 75 next year.

✓ We significantly strengthened our people resources, from senior management outward to our field and store associate teams, with comprehensive People Resources initiatives, leadership and skills training at all levels, and the focus on customer satisfaction being communicated throughout the organization.

The Company achieved sales and profit improvements in all of our operating areas in fiscal 1999.

Our Metro New York A&P, Food Emporium and Waldbaum's store groups have benefited from substantial new store development over the last several years. In addition to rebuilding our store base and improving market share in this area, particularly in New Jersey, we have elevated our image with area consumers to that of a more contemporary, higher-quality retailer offering true one-stop shopping convenience.

We were especially pleased by the performance of our Waldbaum's division. Driven by successful new stores and operating improvements, Waldbaum's increased its market share on Long Island for the first time in many years and is once again generating substantial profits.

Our midwestern Farmer Jack operation, the undisputed market leader in Detroit, posted record sales and earnings last year with successful new store development, strong loyalty marketing programs and targeted merchandising driven by category management best practices.

Two loyalty card-based initiatives that have been enthusiastically received by area consumers are the award-winning Baby Club, which offers cash discounts based on baby-related purchases in our stores, now being rolled out Company-wide, and an air miles program offered exclusively in conjunction with Northwest Air Lines.

Our New Orleans-based Sav-A-Center group solidified its number two market share position last year, with the successful integration of five former Schwegmann superstores

acquired last September; a sixth will be replaced on its existing site this year.

In the process of adding nearly 400,000 retail square feet to our profitable New Orleans presence - to a notably enthusiastic customer reception - the upgrading of the stores generated 1,500 new jobs for local residents while also offering employment to the former Schwegmann store associates.

A&P Canada also achieved record sales and earnings, as our A&P, Dominion, Food Basics and The Barn stores in Ontario generated a Company-leading comparable store sales trend of better than 6%. Their performance was driven by a successful store remodeling program, strategic acquisitions and strong marketing initiatives.

In its fourth full year of operation, the franchised Food Basics stores continued to be a major growth catalyst for the Company, achieving double-digit identical store sales increases. We expect to grow that business to approximately 80 stores in fiscal 2000 through the conversion of existing stores and the addition of several new locations.

In the latter part of fiscal 1999, we began to see notable improvement in our Mid-Atlantic Super Fresh division operating in Baltimore, Philadelphia and Washington, D.C. While considerable store network development still lies ahead, the new stores opened last year are performing well.

With new division leadership in place, a concerted effort to improve our store level teams, and ongoing store development, we believe Super Fresh is poised for additional progress this year and beyond.

Clearly, our 1999 results reflected the initial success of the People and Places strategies enacted in the first phase of Project Great Renewal. On March 13, we announced Great Renewal Phase II, a major investment over four years to develop a state-of-the-art supply chain and business management infrastructure.

Overall, we expect to achieve substantial cash benefits over that period resulting from improved margins, lower operating expenses, reduced working capital and better product availability. After full implementation, we expect to significantly raise the level of our ongoing annual operating income.

This significant investment in A&P's future is the logical extension of our overall Great Renewal strategy. It will establish the best practices, and related enabling technology, needed to elevate the performance of our three key business processes - store operations, marketing and merchandising, and supply and logistics.

Our Great Renewal Phase II announcement followed closely the formation of our new Atlantic Region management organization, which now oversees A&P, Waldbaum's and Food Emporium in New York and New Jersey; A&P and Super Foodmart in New England, and Super Fresh in Baltimore, Philadelphia and Washington D.C.

The new organization focuses operating management more closely on store performance and customer service issues, while positioning marketing and merchandising management to develop and implement more targeted, customer driven marketing programs. This concentration of functions greatly improves the ability of our regional management team to utilize the processes that will result from the Great Renewal Phase II initiative.

Late in 1998, new leadership challenged this venerable organization to reaffirm the principles and core values upon which it was founded 140 years ago, and thus renew itself and its commitment to the consumer.

Our results in fiscal 1999 reflected a resounding response to that challenge. My personal thanks to all of our associates for their dedication and enthusiasm, our customers for their growing recognition of our efforts to better serve them, our suppliers for their partnership and all of our shareholders for their continuing support.

We are proud of our new beginning. More than ever, we are confident that for The Great A&P, the best is yet to be.

Christian Haub

peo·ple (pē´pəl) *n.*

"In the eyes of our management, nothing is more important than the quality of our service to customers. That was A&P's guiding principle 140 years ago, and is the centerpiece of our Company's Great Renewal."

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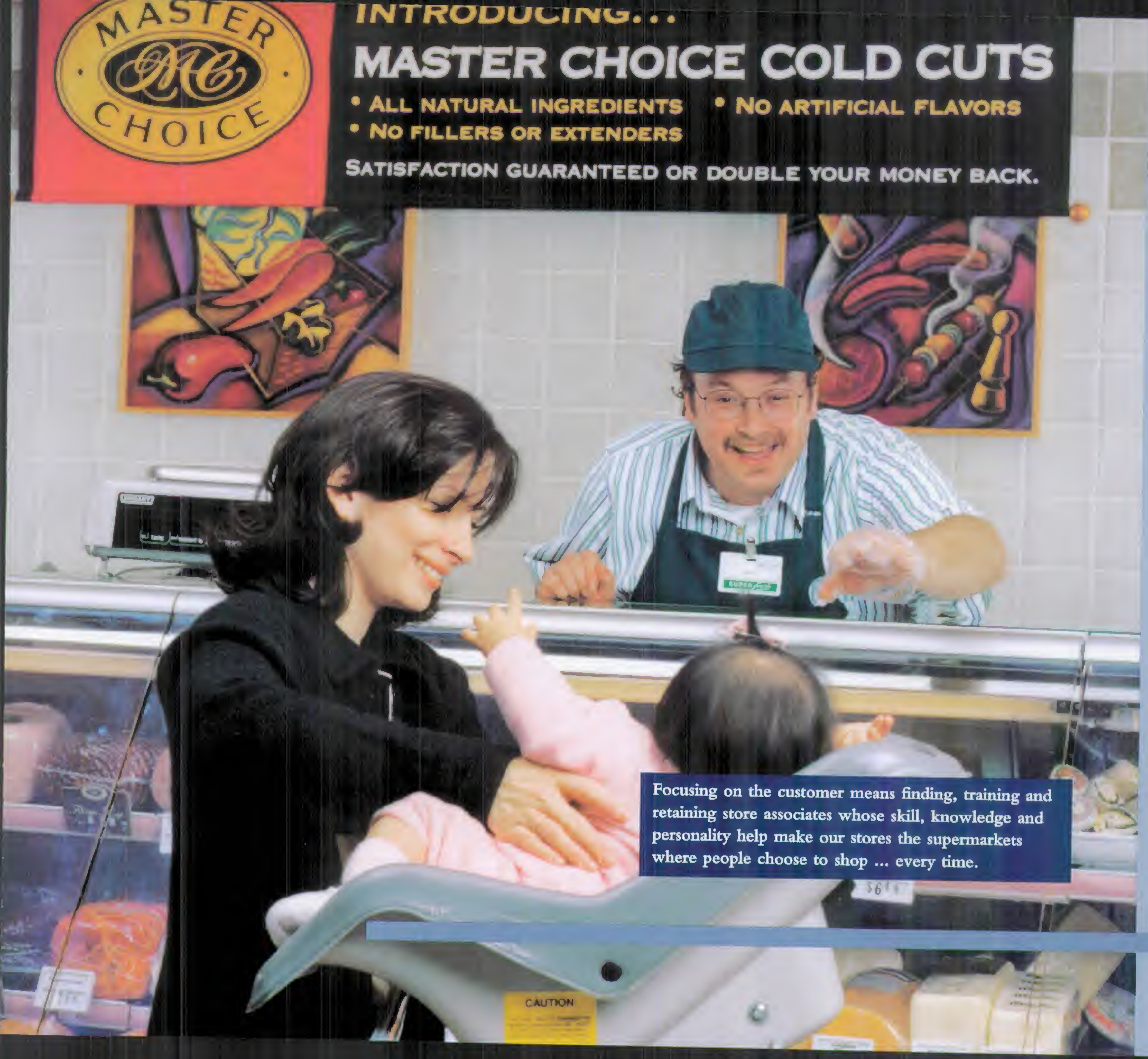

Focusing on the customer means finding, training and retaining store associates whose skill, knowledge and personality help make our stores the supermarkets where people choose to shop ... every time.

The transformation of a corporate culture in an organization the size of The Great Atlantic & Pacific Tea Company is not something accomplished instantly. Rather, it is a mission set in motion a step at a time, building momentum until it assumes a life of its own.

Those first steps were taken in fiscal 1999, as A&P's Project Great Renewal took root, refocusing the organization on a central theme - the idea that from senior management outward, every associate at every level has "end users" of the expertise they possess and the tasks they perform - and that the ultimate beneficiary at the conclusion of this "added value pipeline" is our customer.

Our new Customer Focus is defined as follows:

✓ Create standards for high quality customer service that set us apart from the competition;
✓ Regularly talk to customers, associates and suppliers to understand service issues;
✓ Promptly act on customer and associate feedback to improve services and service levels;
✓ Provide appropriate staffing and training to achieve customer satisfaction levels;
✓ Remove barriers that interfere with the ability to provide high quality products and service.

Supporting the Customer Focus platform is a set of Core Values established at the outset of Project Great Renewal, to guide the interaction of our people with our customers and with one another. They are Integrity and Respect, Excellence, Teamwork, Learning, and Responsibility and Accountability.

Integrity and Respect

✓ To act according to the highest ethical standards;
✓ To create an environment that achieves a healthy balance between work and personal life;
✓ To encourage associates to speak openly and honestly;
✓ To care more about correcting mistakes than placing blame;
✓ To treat all associates fairly and with respect;
✓ To base promotions and assignments on an objective skills assessment and performance review;
✓ To listen with care and concern when associates bring issues to management's attention.

Excellence

✓ To possess the passion to excel with a sense of urgency;
✓ To define and communicate expectations of excellence;
✓ To encourage others to strive for excellence in all that they do;
✓ To recognize and acknowledge excellence in others;
✓ To constantly look for ways to improve performance and outperform the competition.

Teamwork

✓ To create an environment that encourages associates to work together as a team;
✓ To seek opportunities to work with others for problem-solving and decision-making;
✓ To recognize and reward teams for exceptional performance;
✓ To foster communication throughout the organization;
✓ To involve associates in planning improvements and implementing changes.

Learning

✓ To promote an environment that is challenging and innovative;
✓ To coach, mentor and educate associates in their assignments;

Our final opportunity to enhance the shopping experience occurs at the checkout, where we are working to better please customers with both cheerful, face-to-face service and the added convenience of one-stop self-checkout lanes.

✓ To provide opportunities for associates to develop their skills and knowledge;
✓ To create an environment where associates can take risks, acknowledging that there will be successes and failures;
✓ To engage in continuous learning.

The Company began communicating these core values last year, in a series of three-day leadership conferences held over a period of several months. They were attended by some 2,000 management associates from all over the Company, including all store and district managers.

At the sessions, management shared its new vision with attendees, and outlined the key areas of improvement that form the basis of the Company's strategic objectives moving forward. They revolve around our "Nine Great Actions and Priorities," which are People; Operating Standards; Underperforming Stores; Development Plans; Marketing Plans; Superior Service and Services; High Quality Fresh Foods; Grocery and General Merchandise and Expense Management.

Equally important, our people had the opportunity to be heard; to express their views of the way things were done in the past, the kinds of changes they felt would drive our Company's growth, and how they perceived their role in that process.

The voices of our associates were also enlisted on a broad scale in March of 1999, when we conducted our first-ever Company-wide employee survey. While the survey results underlined the significant work yet to be done, they also revealed great enthusiasm about the new values and strategies, and the potential for positive change. Witness a few of the summary statements based on associate responses:

"People take pride in working for A&P and have a strong desire to make change happen. There is hope about the potential for change and people are ready, willing and able to take on more challenging work. There is energy and a BIG appetite for change." ...

"As one person said, 'I honestly feel the Company is taking the right steps to improve the entire organization ... The message is being heard. We must stick to it!'" ...

"The key to unleashing and channeling this positive energy is for managers and employees to begin working together in the planning of improvements - engaging people in finding problems and working together on solutions." ...

"What people want is a place where they are excited and motivated to work; a place where risk-taking is encouraged; a place where people can challenge the status quo, strive for innovation in the workplace, and reap the rewards."

Under the guidance of our more strategically oriented People Resources and Services department, we are building further on the momentum generated last year, toward our goal of becoming, and remaining the Supermarket of Choice ... Where People Choose to Work.

place (plās) *n.*

"Our new generation superstores are creating 'destination shoppers' by attracting greater numbers of customers, who spend significantly more per shopping trip than did customers in the older stores being replaced."

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Places

The Atlantic Region, based at our Paterson, N.J. office, directs 395 stores including our A&P, Waldbaum's and Food Emporium operations in New York and New Jersey; our A&P and Super Foodmart operations in New England and our Super Fresh operations in Baltimore and Philadelphia.

The inception of Project Great Renewal included the acceleration of our Company's store development program. The objective was to hasten the conversion of our entire retail network to one that is superstore-dominant, providing the products, services, convenience and overall environment shoppers tell us they want.

This involved the closure in fiscal 1999 of some 143 older, smaller stores judged unsuitable for remodeling or expansion for various reasons, including the 34 stores eliminated by our withdrawal from the Atlanta market.

Over the same period, we added a Company-record 54 new stores, through internal development and strategic acquisitions - virtually all reflecting the spacious 50,000 to 60,000 square foot superstore prototype format we developed four years ago, and have since continued to fine-tune and improve based on customer feedback.

Since their introduction, we have rolled out approximately 160 such stores across our operations in the U.S. and Ontario, Canada. Their success in the marketplace is borne out by several key measurements. Sales per square foot in these contemporary, one-stop shopping superstores continue to exceed the industry average.

Equally important, our new stores are creating "destination" shoppers by attracting greater numbers of customers, who in turn are spending significantly more per shopping trip than customers in the older stores being replaced. Thus in fiscal 1999, we achieved the same overall sales volume we did in the prior year, despite operating approximately 11% fewer stores in total.

We invested approximately $480 million on new store development in fiscal 1999, and plan to repeat that level of investment this year, as we develop up to 60 new superstores either through new construction or the remodeling and expansion of existing stores as determined by space availability and the potential for significant sales growth.

With approximately 35% of our new-generation superstores having directly replaced smaller facilities, A&P's average store size increased beyond the industry's in 1999, and will surpass the 40,000 square foot mark during this year as our store network renewal continues.

We plan to add 175 to 200 new superstores over the next three years. Given the typical three to five-year time frame to develop, construct and open a new store in our markets, we have significantly expanded our pipeline of potential locations to promote our aggressive development plans.

The style and substance of the stores operating under all of our banners have been noted not only by our customers, but by their communities and the press as well.

Early last year, our new Super Fresh Food Market in Timonium, MD was named the "Best Supermarket in Baltimore" in a survey conducted by *Baltimore Magazine*. In November, a survey of Ontario consumers conducted by *The Toronto Sun* proclaimed our Canadian Company's Dominion Stores division the "Best Supermarket in Toronto." In addition, several of our newer stores were the subject of favorable profiles by major supermarket industry trade publications.

The blueprint for the new A&P Family of Superstores garnering these positive reviews is a spacious yet navigable one-stop shopping environment.

The Midwest Region, based in Detroit, Michigan. directs 138 stores, including our Farmer Jack operations in Michigan, as well as our Kohl's division with stores in and around Milwaukee, Wisconsin. Our Southern Region, based in New Orleans, operates 37 stores.

In addition to expanded traditional supermarket departments, it offers:

✓ a complete drugstore, including a pharmacy and extensive lines of health and beauty care products;

✓ rapidly growing whole health offerings featuring natural and organic products;

✓expansive fresh food departments with large delis and bakeries augmented by salad, pizza, soup and sushi bars, cheese and other specialty food islands and an array of hot and cold takeout foods prepared by instore chefs;

✓depending upon the location, such features as warehouse club pack aisles, and full-service instore banks.

While perimeter fresh food departments continue to play significant roles in differentiating supermarkets, we know as merchants that complete, well-merchandised grocery and general merchandise departments are an equal part of the total one-stop shopping picture.

Utilizing the generous selling space available in our newer stores, we are refining our product assortment to make various departments within our aisles true shopper destinations in the same sense as the most popular perimeter sections. Important categories in the grocery area include pet care, baby care and coffee; the latter intended to build on the longtime popularity of our Eight O'Clock line of whole bean coffees.

Here, we also see a bridge to the perimeter, where we are experimenting in several new stores with café-style Eight O'Clock Coffee bars, where shoppers can sit, take a break, and enjoy our fresh-brewed bean varieties along with something to eat.

In our already growing health and beauty care departments, we are developing strong assortments in such categories as hair care, child care, over-the-counter medication "changeovers" that were previously prescription drugs, first aid, skin care and oral care.

The vitamin and food supplement categories are increasing in importance, and represent the "nutraceutical" area that will continue to grow as aging baby boomers place even greater emphasis on healthy lifestyles and products.

A key to the development of our health and beauty care and nutraceutical business is the ongoing growth and success of our pharmacy departments. We have nearly 300 instore pharmacies in operation at present, nearly twice as many as we had only two years ago. With prescription volume growing at an impressive rate, we continue to include pharmacies in our new and expanded stores whenever possible.

The size and scope of our larger stores permit us to meet customer demands in all key food and drug related categories, while also developing our business in several key and frequently-purchased general merchandise product lines. Examples include greeting cards, stationery and home office supplies, baby care supplies, kitchenware, photo processing and pet accessories.

To ensure that our overall product assortment is right for the customer mix serviced by each of our stores, we are upgrading our business processes, to be detailed in the next section of this report, to develop a true category management approach across the entire Company.

In addition to national brand merchandise, this will guide us in the continuing development of our America's Choice and premium Master Choice corporate label lines.

A&P's Canadian Company directs 180 stores in the Province of Ontario under the A&P, Dominion, The Barn Markets and Ultra Food & Drug banners. The Company also franchises and supplies 64 stores operating under the Food Basics banner.

It will provide the opportunity to fine-tune our assortment in every packaged goods category, and replace less profitable, "lower tier" branded products with our high quality, private label alternatives.

With customer focus the watchword of Project Great Renewal, we have initiated a Customer Satisfaction Survey program that will provide every one of our stores with the most comprehensive customer feedback on its operations and merchandising ever made available.

Over a two-month period last year, we went into more than 700 of our stores across our operating regions, and interviewed nearly 50,000 shoppers. In addition to identifying them in demographic terms, we asked what their level of satisfaction was in each department in the store; what they would like to see changed; and how they felt about their shopping experience in general, in terms of products, services, people and general store environment.

We were pleased to discover that our stores are developing a loyal customer base ... more than 80% of our customers do at least half of all food shopping in our stores. Moreover, 89% of those interviewed said they would recommend our stores to others.

With this level of "grass roots" endorsement already taking shape, we can clearly see the potential ahead, as our customer-focused culture change continues to improve service, from the moment shoppers enter our stores on through their experience at the checkout.

Customers praised our Bonus Card loyalty programs, with 75% of those interviewed saying they use our cards, and more than 85% of users saying they were "very satisfied" with the benefits they provide.

Finally, our survey again revealed the importance of "place" in the daily lives of today's consumers, with high marks coming from shoppers in the new stores we have built, and those upgraded to "new store equivalents" through remodeling and enlargement.

The overall satisfaction rates expressed by customers in those stores were noticeably higher than the average, telling us that our prototypes are providing the shopping environment customers appreciate.

Perhaps most important, this was not a one-time effort. We intend to survey our customers in this fashion twice a year moving forward, to measure progress against the benchmarks now established, and gain additional shopper insights as we fine-tune our offering in a mode of continuous improvement.

Based on this input, store-level action teams will develop plans to address those areas identified by customers as opportunities for improvement, and build further on those considered areas of strength.

These are all essential elements in the process of becoming ... and remaining ... the Supermarket of Choice wherever we operate.

process (prŏs´ĕs´) *n.*

"**State-of-the-art business systems and processes will enhance our ability to provide the right products, for the right price, at the right time, in the right place, at the lowest possible cost of delivery.**"

Processes

process (prŏs´ĕs´) *n.*

“State-of-the-art business systems and processes will enhance our ability to provide the right products, for the right price, at the right time, in the right place, at the lowest possible cost of delivery.”

Processes

The creation of our new supply chain and business management infrastructure is driving the overall development of our Information Services organization and capabilities, to facilitate the alignment of people, processes and technology.

In March, we announced Phase II of A&P's Project Great Renewal - the development over four years of a state-of-the-art supply chain and business management infrastructure.

This major initiative marks the third critical component of the ongoing Great Renewal strategy charted in 1998. By linking it with the two elements that comprised Great Renewal Phase I - the customer focus and orientation of our people and the accelerated improvement of our store network - we will have all the elements in place to achieve our goal of becoming the Supermarket of Choice wherever we operate.

This effort started last year, when we initiated the process of assessing our entire, physical supply chain. As we moved further into this evaluation, we expanded the scope of the project, to include a comprehensive review of our business processes and technologies across the Company ... examining virtually every function and department to identify opportunities to embrace or expand best practices.

Our objective, in short, is to consistently provide our customers with the right products, for the right price, at the right time, in the right place, at the lowest possible cost to us.

Accordingly, we must ensure that the right people in our organization have the right tools, and receive the right information at the right time ... so that they can make the right decisions for our customers and therefore our Company.

To make that happen, Great Renewal Phase II will fully transform the three key process areas that comprise our supply chain infrastructure - store operations, marketing and merchandising, and supply and logistics.

Supporting that improvement will be the development of the related, enabling technologies. Overall, this effort will improve virtually all processes and systems driving the flow of products and information between our offices, distribution points and stores, and between the Company and our suppliers.

In *Store Operations*, we are working to eliminate all non-value-added activities, and support our store associates with new processes and technologies, such as online ordering, perpetual inventory systems and demand-based replenishment.

This will enable us to increase labor productivity in our stores, free associates from tasks that detract from customer interaction and service, better manage inventories and increase turns.

Our *Marketing and Merchandising* improvements will be driven by true category management best practices, applied throughout the Company.

This improvement will allow us to customize our assortment of products literally by individual store, optimize the impact and execution of our promotional programs, and sharpen our pricing techniques to help maximize our profit per square foot of selling space.

Although we have already made solid progress in implementing category management in some operating areas, we have lacked the necessary information-sharing framework, hence the necessary data base, to drive that progress across the entire Company. Great Renewal Phase II will provide this critical component for our marketing and merchandising effort.

In the area of *Supply and Logistics*, better information will also enable us to maximize the efficiency and effectiveness of our warehousing and transportation functions.

On the procurement side, the implementation of demand-based forecasting will lead to a more integrated purchasing

Process and technology improvements will enable us to drive efficiency in our regional distribution centers, and improve the flow of both information and products between those facilities and our buying offices and stores.

strategy. This will both maximize our buying efficiency, and preserve our ability to target merchandise assortments to the needs of local market areas, and even individual stores.

Supporting our best practices across these key supply chain processes will be all of the necessary enabling technologies.

To implement this initiative, we have appointed a dedicated team of some 60 A&P managers representing all key business functions, reporting directly to the Chief Executive Officer's eight-member Management Executive Committee.

We selected IBM as our strategic partner for Project Great Renewal Phase II, assisting us in the development and implementation of business process changes, a new technology architecture and portfolio of applications, and overall project coordination and change management.

This relationship enables us to utilize IBM's proven expertise in systems integration, and in the larger sense benefit from their experience in participating in such large-scale infrastructure transformations as we are undertaking.

The vastly improved quality and flow of information through and outside our organization will transform A&P to a truly knowledge-based enterprise ... reinventing the way we market our offering to customers, and do business with our suppliers.

The impact felt by our customers as our improvements unfold will be a shopping experience that distinguishes A&P-operated stores from our competitors by virtue of:

✓superior product variety targeted to local preferences;
✓consistent in-stock levels and new-item availability;
✓consistently excellent fresh food quality and variety;
✓first-class store operating standards across the Company.

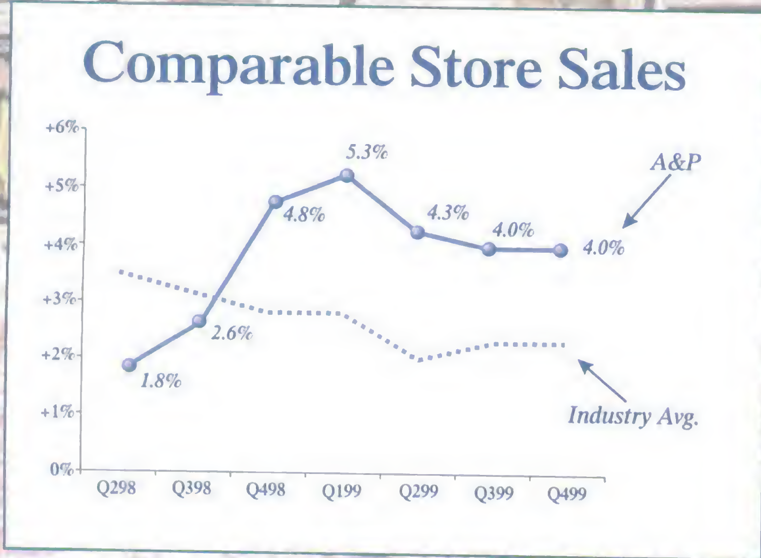
Achievement of excellence in all of these areas will drive us to our immediate goal of becoming the Supermarket of Choice. But we are also laying the groundwork to ensure that we *remain* the Supermarket of Choice over the long term.

Therefore, the aim of this initiative is not merely to position our Company for the foreseeable future, but to establish a state of readiness for the changes that will continue transforming our lives, and the business environment, in the years ahead. Those changes will reflect demographic shifts, economics, media influence, lifestyle and workplace choices ... and the swiftly-growing influence of technology at home, at work, at school and even in transit.

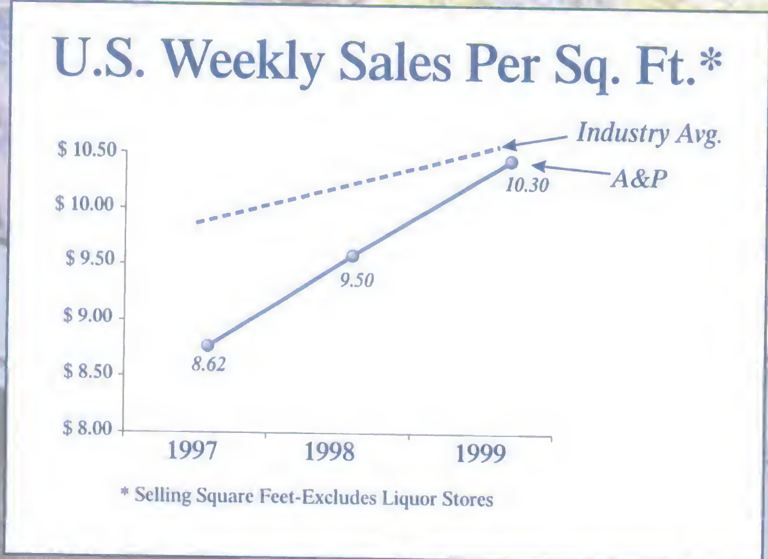
Accordingly, our landmark investment in Phase II of A&P's Great Renewal reflects our full commitment to the future - a future we know will be shaped by those who have the power to leverage and apply knowledge and information.

Thus we are committed to continuous improvement ... in our approach to selecting, empowering and evaluating our people ... in the development of not only our stores, but other possible means of delivering products to the consumer profitably ... and in defining ourselves as a learning organization attuned to the evolving needs of our customers and associates.

It is through this philosophy, and its execution, that we will regain and preserve The Great A&P's rightful position among the leaders in American business.


Comparable Store Sales
+6%
+5%
+4%
+3%
+2%
+1%
0%
Q298
Q398
Q498
Q199
Q299
Q399
Q499
1.8%
2.6%
4.8%
5.3%
4.3%
4.0%
4.0%
A&P
Industry Avg.


Average U.S. Store Size*
40
35
30
25
29.9
30.8
31.8
33.0
34.7
36.4
39.5
1993
1994
1995
1996
1997
1998
1999
* Excludes Food Emporium & Liquor Stores - Sq. Feet in 000's


U.S. Weekly Sales Per Sq. Ft.*
$ 10.50
$ 10.00
$ 9.50
$ 9.00
$ 8.50
$ 8.00
1997
1998
1999
8.62
9.50
10.30
Industry Avg.
A&P
* Selling Square Feet-Excludes Liquor Stores


Market Share
40
30
20
10
0
31%
24%
23%
20%
#1
#1
#2
#2
Metro Detroit
Metro New York
Ontario, Canada
New Orleans, La.

Management's Discussion and Analysis

OPERATING RESULTS

Fiscal 1999 Compared with 1998

Sales for fiscal 1999 were $10,151 million, a net decrease of $28 million or 0.3% when compared to fiscal 1998 sales of $10,179 million. The decrease is attributable to the closure of 249 stores, excluding replacement stores, since the beginning of fiscal 1998, which reduced total sales by approximately $1,131 million. Included in the 249 store closures and $1,131 million sales impact are 165 stores relating to the exit stores that were closed during fiscal 1998 and 1999 which had an impact of $869 million. Also contributing to the net sales decrease was a decrease in sales of $17 million in the Company's Compass Food Division. These decreases were partially offset by the opening of 63 stores, excluding replacement stores, since the beginning of fiscal 1998, which added approximately $599 million, or 5.9% to sales in fiscal 1999. In addition, the increase of 4.4% in same store sales ("same store sales" referred to herein include replacement stores) increased sales by $365 million. The Food Basics wholesale business contributed $119 million to the increase and the addition of The Barn Markets and G. A. Love Foods added $10 million to sales in fiscal 1999, both exclusive of the effect of the Canadian exchange rate. The increase in the Canadian exchange rate also improved sales by $27 million or 0.3%.

Average weekly sales per supermarket were approximately $245,700 in fiscal 1999 versus $210,500 in fiscal 1998, reflecting a 16.7% increase. Sales in the U.S. decreased by $295 million or 4% compared to fiscal 1998. U.S. same store sales increased 4.1% from the prior year. Sales in Canada increased $267 million or 14% from fiscal 1998. Canadian same store sales increased 6.2% from fiscal 1998.

Gross margin as a percent of sales decreased 0.1% to 28.6% from 28.7% for the prior year. Margins were negatively impacted by accelerated inventory markdowns in stores that were identified for closure under the first phase of Project Great Renewal ("Great Renewal - Phase I") and the exit of the Atlanta market during the first quarter of fiscal 1999. The gross margin dollar decrease of $12 million resulted predominantly from a decrease in sales volume. The U.S. operations gross margin decrease of $56 million resulted from a decrease in sales volume, which impacted gross margin by $88 million, partially offset by an increase of $32 million from an increase in the gross margin rate. The Canadian operations gross margin increase of $44 million resulted from an increase in sales volume, which impacted gross margin by $57 million, and an increase of $6 million from the effect of the change in the Canadian exchange rate. The increase was partially offset by a decrease of $19 million from a decrease in the gross margin rate.

Store operating, general and administrative expense decreased approximately $281 million from fiscal 1998. As a percent of sales, store operating, general and administrative expense for fiscal 1999 decreased to 27.6% from 30.3% for the prior year. Fiscal 1998 store operating, general and administrative expense includes charges of $225 million recorded in the third and fourth quarters to establish reserves relating to Great Renewal - Phase I. Also included in store operating, general and administrative expense for fiscal 1998 are shut-down costs of stores and facilities amounting to approximately $9 million relating to 66 stores and three facilities closed in the third and fourth quarters and $6 million of incurred professional fees associated with the identification and implementation of the store and facilities exit program. Further, store operating, general and administrative expense for fiscal 1998 includes a $7 million write-down of property no longer held for a potential store site and a $4 million litigation charge.

Fiscal 1999 store operating, general and administrative expense includes additional Great Renewal - Phase I related costs totaling approximately $75 million, including severance of $11 million which could not be accrued in fiscal 1998 because it did not meet the criteria under EITF 94-3, professional fees of $16 million associated with the implementation of the store exit program, transitionally higher labor costs which approximate $14 million, costs of approximately $20 million for the conversion of additional stores to the Food Basics format and $9 million of other miscellaneous operating costs incurred in connection with the closures. The $75 million also includes the costs of exiting the Atlanta market consisting of severance of $6 million and store occupancy cost of $11 million which relates principally to the present value of future lease obligations, partially offset by a $12

Management's Discussion and Analysis (cont.)

million gain that resulted from the disposition of fixed and intangible assets.

The total fiscal 1999 charge of $75 million is partially offset by a $21.9 million reversal of Great Renewal - Phase I charges originally recorded in fiscal 1998.

Reference should be made to the "Store and Facilities Exiting Program - Great Renewal - Phase I" section of this Management's Discussion and Analysis for further details of the Company's exiting program.

Excluding the non-recurring charges under Great Renewal - Phase I discussed above, fiscal 1999 store operating, general and administrative expense decreased approximately $83 million from fiscal 1998. As a percentage of sales, store operating, general and administrative expense decreased from 27.8% to 27.1%. Included in the fiscal 1999 results, are higher store operating, general and administrative expense of the stores identified for closure under Great Renewal - Phase I of approximately $69 million or 43.4% of sales. Excluding the results of stores identified for closure and the non-recurring charges under Great Renewal - Phase I, fiscal 1999 store operating, general and administrative expense as a percentage of sales was 26.8%.

Interest expense increased $13 million from the previous year, primarily due to the additional present value interest related to the future lease obligations of the store exit programs as well as the issuance of $200 million of 9.375% senior quarterly interest bonds on August 6, 1999.

Interest income decreased $0.4 million from the previous year, primarily due to a lower amount of short-term investments.

For fiscal 1999, income before income taxes was $27 million compared to a loss of $229 million in fiscal 1998 for an increase of $256 million. Income before taxes for U.S. operations was virtually break even compared to a loss of $244 million in fiscal 1998. The Canadian income before taxes for fiscal 1999 amounted to $27 million, which was an increase of $12 million from the fiscal 1998 amount of $15 million.

The Company recorded an income tax provision amounting to $13 million in fiscal 1999 as compared to an income tax benefit of $162 million for fiscal 1998. The income tax provision recorded in fiscal 1999 reflects the Company's estimated annual tax rates applied to its respective domestic and foreign operations. The effective tax rate for fiscal 1999 was 47.6%. The fiscal 1998 benefit of $162 million includes the reversal of the Canadian operations deferred tax valuation allowance. During the first three quarters of fiscal 1998, the Company reversed approximately $9 million of the Canadian valuation allowance to the extent that the Canadian operations had taxable income. At the beginning of the fourth quarter of fiscal 1998, based upon Management's plan to close underperforming stores in Canada, the implementation of certain tax strategies and the continued performance improvements of the Canadian operations, Management had concluded that it was more likely than not that the net deferred tax assets related to the Canadian operations would be realized. Accordingly, the Company reversed the remaining portion of the Canadian deferred tax valuation allowance amounting to approximately $60 million (see "Income Taxes" footnote for further discussion). The deferred tax benefit recorded during fiscal 1998 for U.S. operations of approximately $103 million mainly relates to book and tax differences of the store and facilities exit costs.

Based on these overall results, net income for fiscal 1999 was $14 million or $0.37 per share - basic and diluted, as compared to a net loss of $67 million or $1.75 per share - basic and diluted. The increase in net income of $81 million in fiscal 1999 from a net loss of $67 million in fiscal 1998 is mainly the result of improved same store sales, reduced operating costs and the decrease in the store and facilities exit costs. The increase is partially offset by a reduction in the number of open stores.

Fiscal 1998 Compared with 1997

Sales for fiscal 1998 were $10,179 million, a net decrease of $83 million or 0.8% when compared to fiscal 1997 (a 53-week year) sales of $10,262 million. Total Company same store sales for fiscal 1998 increased 1.9% from the prior year. Average weekly sales per supermarket were approximately $210,500 in fiscal 1998 versus $199,400 in fiscal 1997, resulting in a 5.6% increase. During fiscal 1998, the Company opened 46 new supermarkets, remodeled or expanded 69 stores and closed 143 stores. The Company serviced 55 Food Basics franchised stores at the end of fiscal 1998, versus 52 at the end of fiscal 1997.

The sales decrease of $83 million from last year

Management's Discussion and Analysis (cont.)

was the result of the extra week in fiscal 1997 coupled with a decline in the Canadian exchange rate. The extra week of sales in fiscal 1997 amounted to approximately $174 million and the lower Canadian exchange rate reduced fiscal 1998 sales by approximately $131 million. Excluding the impact of the extra week in fiscal 1997 and the lower Canadian exchange rate, sales increased approximately $222 million or 2.2% from fiscal 1997. This increase is the result of new store openings and an increase in same store sales partially offset by store closures. The opening of 44 new stores, excluding 40 replacement stores, since the beginning of fiscal 1997 increased sales by approximately $274 million or 2.7% in fiscal 1998. In addition, the increase in comparable store sales of 1.9% increased sales by $177 million and wholesale sales to the Food Basics franchised stores increased $47 million or 13.8% to $387 million for fiscal 1998, which increased total Company sales by 0.5%. These sales increases were partially offset by the closure of 178 stores, excluding replacement stores, which reduced sales by $327 million or 3.2%. Included in the 178 store closures and $327 million sales impact are 66 stores relating to the exit stores that were closed during the fourth quarter which had an impact of $44 million. U.S. sales decreased $68 million or 0.8% compared to fiscal 1997. U.S. same store sales increased 1.4% from the prior year. In Canada, sales decreased $15 million or 0.8% from fiscal 1997 to $1,903 million. Canada same store sales increased 4.6% from the prior year.

Gross margin as a percent of sales increased 0.1% to 28.7% from 28.6% for the prior year. The gross margin dollar decrease of $16 million is primarily the result of a lower Canadian exchange rate, offset by an increase in sales volume and an increase in gross margin rates. The U.S. gross margin decreased $3 million principally as a result of a decrease in sales volume, which had an impact of decreasing margin by $20 million, and an increase in gross margin rates of $17 million. The Canadian operations gross margin decreased $13 million, which was primarily the result of the lower Canadian exchange rate.

Store operating, general and administrative expense of $3,084 million in fiscal 1998 increased by approximately $304 million from fiscal 1997. As a percent of sales, store operating, general and administrative expense for fiscal 1998 increased to 30.3% from 27.1% for the prior year. Included in fiscal 1998 store operating, general and administrative expense are charges recorded in both the third and fourth quarters relating to Great Renewal - Phase I, the Company's store and facilities exit program, which amounted to $225 million. The store and facilities exit program relates to a decision made in both the third and fourth quarters of fiscal 1998 to exit the market areas of 132 underperforming stores and to exit four facilities. Reference should be made to the "Store and Facilities Exiting Program - Great Renewal - Phase I" section of this Management's Discussion and Analysis for further details of the Company's exiting program.

Excluding the store and facilities exit charges, store operating, general and administrative expense increased $79 million from fiscal 1997 and a rate to sales basis of 28.1% for fiscal 1998 as compared to 27.1% in fiscal 1997. Also included in store operating, general and administrative expense for fiscal 1998 are shut-down costs of stores and facilities amounting to approximately $9 million relating to 66 stores and three facilities closed in the third and fourth quarters of fiscal 1998, and $6 million of incurred professional fees associated with the identification and implementation of the store and facilities exit program. Further, store operating, general and administrative expense for fiscal 1998 also includes a $7 million write-down of property no longer held for a potential store site and a $4 million litigation charge. During fiscal 1998, the Company accelerated its store modernization program and closed an additional 77 stores, for total store closures in fiscal 1998 of 143. As a result of the 77 store closures, the Company incurred $25 million of higher store closing charges in fiscal 1998 than the prior year. The remaining increase from the prior year of $28 million is mainly related to the occupancy costs of the new generation superstores, which increased $20 million from the prior year.

Interest expense decreased $9 million from the previous year, primarily due to a decrease in average debt of approximately $55 million. The decrease in debt is mainly the result of the Company issuing $300 million of 10-year notes in April 1997 to refinance 10-year notes that were becoming due in January 1998. Accordingly, the Company had higher debt throughout fiscal 1997 until the fourth quarter of fiscal 1997 when the

Management's Discussion and Analysis (cont.)

$200 million of 10-year notes were paid.

Interest income decreased $1 million from the previous year, primarily due to a lower amount of short-term investments.

Loss before taxes and extraordinary item for fiscal 1998 was $229 million as compared to income of $83 million in fiscal 1997 for a decrease of $312 million. The loss before income taxes for fiscal 1998 includes the store and facilities exit charge of $225 million and other costs noted in store operating, general and administrative expense. Loss before taxes for U.S. operations amounted to $244 million, which was a decrease of $290 million from income of $46 million in fiscal 1997. Excluding the store and facilities exit charge, the U.S. loss before income taxes was $30 million for fiscal 1998 resulting in a $76 million decrease from fiscal 1997. The U.S. decrease of $75 million is the result of the charges noted in store operating, general and administrative expense relating to the property write-down, litigation, professional fees, shut-down costs and higher store closing costs which in total amounted to $46 million. The Canadian income before taxes for fiscal 1998 amounted to $15 million, which was a decrease of $22 million from the fiscal 1997 amount of $37 million. The $22 million decrease includes $10 million of the store and facilities exit charge and $6 million of higher store closing costs as noted in store operating, general and administrative expense.

The Company recorded an income tax benefit amounting to $162 million in fiscal 1998 as compared to an income tax provision of $19 million for fiscal 1997. The fiscal 1998 benefit of $162 million includes the previously discussed reversals of the Canadian operations deferred tax valuation allowance.

Based on these overall results, net loss for fiscal 1998 was $67 million or $1.75 per share - basic and diluted, as compared to net income of $63 million or $1.65 per share - basic and diluted, after recording an extraordinary charge of $0.01 per share - basic and diluted for fiscal 1997. The decrease in net income of $130 million to a net loss of $67 million in fiscal 1998 is mainly the result of the store and facilities exit costs pretax charge of $225 million, partially offset by the reversal of the remaining Canadian valuation allowance.

STORE AND FACILITIES EXITING PROGRAM - GREAT RENEWAL - PHASE I

In May 1998, the Company named a sole Chief Executive Officer of the Company. Following the announcement, the Company initiated a vigorous assessment of all aspects of its business operations in order to identify the factors that were impacting the performance of the Company.

As a result of the above assessment, in the third quarter of fiscal 1998, the Company decided to exit two warehouse facilities and a coffee plant in the U.S. and a bakery plant in Canada. In connection with the exit plan, the Company recorded a charge of approximately $11 million which is included in "Store operating, general and administrative expense" in the Statements of Consolidated Operations. The $11 million charge was comprised of $7 million of severance, $3 million of facilities occupancy costs for the period subsequent to closure and $1 million to write-down the facilities to their estimated fair value.

As of February 27, 1999, the Company had closed and terminated operations with respect to the warehouses and the coffee plant. The volume associated with the two warehouses has been transferred to other warehouses in close geographic proximity. Further, the manufacturing processes of the coffee plant have been transferred to the Company's remaining coffee processing facility. The processing associated with the Canadian bakery has been outsourced effective January 1999.

In addition, on December 8, 1998, the Company's Board of Directors approved a plan which included the exit of 127 underperforming stores throughout the United States and Canada and the disposal of two other properties. Included in the 127 stores are 31 stores representing the entire Richmond, Virginia market. Further on January 28, 1999, the Board of Directors approved the closure of five additional underperforming stores. In connection with the Company's plan to exit these 132 stores and the write-down of two properties, the Company recorded a charge in the fourth quarter of fiscal 1998 of approximately $215 million.

This $215 million consisted of $8 million of severance, $1 million of facilities occupancy costs, $114 million of store occupancy costs, which principally relates to the present value of future lease obligations, net of anticipated sublease

Management's Discussion and Analysis (cont.)

recoveries, which extend through fiscal 2028, an $83 million write-down of store fixed assets and a $9 million write-down to their estimated fair value of the two properties which are held for sale. To the extent fixed assets included in stores identified for closure could be utilized in other continuing stores, the Company has or will transfer those assets to continuing stores. To the extent those fixed assets cannot be transferred, the Company will scrap them and accordingly, the write-down was calculated based upon an estimated scrap value. This fourth quarter charge of $215 million was reduced by approximately $2 million in fiscal 1998 due to changes in estimates of pension withdrawal liabilities and fixed asset write-downs from the time the original charge was recorded. The net charge of $213 million is included in "Store operating, general and administrative expense" in the Statements of Consolidated Operations.

In addition to the charges recorded in fiscal 1998, there are other charges related to the plan which could not be accrued at February 27, 1999 because they did not meet the criteria for accrual under EITF 94-3. Such costs have been expensed as incurred as the plan was being executed. During fiscal 1999, the Company recorded an additional pretax charge of $11 million for severance relating to the 132 stores.

On April 26, 1999, the Company announced that it had reached definitive agreements to sell 14 stores in the Atlanta, Georgia market, two of which were previously included in the Company's store exit program as discussed above. In conjunction with the sale, the Company decided to exit the entire Atlanta market and close the remaining 22 stores, as well as the distribution center and administrative office. Accordingly, at the time of the announcement, the Company recorded a fiscal 1999 first quarter net pretax charge of approximately $5 million. This charge is comprised of severance of $6 million, future lease commitments of $11 million, partially offset by a $12 million gain related to the disposition of fixed and intangible assets. The net charge is included in "Store operating, general and administrative expense" in the Statements of Consolidated Operations.

As of February 26, 2000, the Company has closed all 34 stores in the Atlanta, Georgia market and 131 of the 132 other stores, including all 31 stores in the Richmond, Virginia market. The remaining store is in the process of being disposed of.

The Company paid $23 million of the total severance charges from the time of the original charges through the end of fiscal 1999, which resulted from the termination of approximately 3,400 employees. The remaining individual severance payments will be paid by the end of fiscal 2000.

At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. The Company has made favorable progress to date in marketing and subleasing the closed stores. As a result, in the third quarter of fiscal 1999, the Company recorded a net reduction in "Store operating, general and administrative expense" of $21.9 million to reverse a portion of the $215 million restructuring charge recorded in fiscal 1998. This amount represents a $22.2 million reduction in "Store operating, general and administrative expense" for lower store occupancy costs resulting primarily from earlier than anticipated lease terminations and subleases. The credit is partially offset by $0.3 million of additional fixed asset write-downs resulting from lower than anticipated proceeds from the sale of fixed assets.

Based upon current available information, Management evaluated the reserve balance of $115 million as of February 26, 2000 and has concluded that it is adequate. The Company will continue to monitor the status of the vacant properties and further adjustments to the reserve balance may be recorded in the future, if necessary.

SUPPLY CHAIN INITIATIVE - GREAT RENEWAL - PHASE II

On March 13, we announced Great Renewal Phase II, a major investment over four years to develop a state-of-the-art supply chain and business management infrastructure.

Overall, we expect to achieve substantial cash benefits over that period resulting from improved margins, lower operating expenses, reduced working capital and better product availability. After full implementation, we expect to significantly raise the level of our ongoing annual operating income.

The Company expects the cost of implementing

Management's Discussion and Analysis (cont.)

Great Renewal - Phase II to reduce net earnings for fiscal 2000 by approximately $1.50 per share. Provided Great Renewal - Phase II plan objectives are delivered on schedule, benefits from improved systems and processes could be derived in fiscal 2000. If planned deliverables are met on time, it is hoped benefits will accelerate in the following years helping to offset costs in fiscal 2001, and providing the opportunity to derive positive net impact to ongoing operating earnings beginning in fiscal 2002.

A team of A&P executives representing all key business functions will work with a team from a new strategic alliance concentrating on the food and drug retailing industry formed by IBM Corporation and Retek, Inc. This combined team will upgrade all processes and business systems related to the flow of information and products between A&P-operated offices, distribution points and stores; and between the Company and its suppliers. Such business processes support Store Operations, Marketing and Merchandising, Supply and Logistics, People Resources, Finance and the enabling technologies.

LIQUIDITY AND CAPITAL RESOURCES

The Company ended the 1999 fiscal year with working capital of $98 million compared to $109 million at February 27, 1999. The decrease in working capital is due to a number of current asset and liability changes including a decrease in inventories of approximately $50 million due to more effective inventory management practices. Additionally, cash and short-term investments decreased from $137 million at February 27, 1999 to $125 million at February 26, 2000.

On August 6, 1999, the Company issued $200 million aggregate principal amount of 9.375% senior quarterly interest bonds due August 1, 2039. The Company used the net proceeds from the issuance of the bonds to repay borrowings under its revolving credit facility, to finance the purchase of 16 stores, (6 in the United States and 10 in Canada) and for working capital and general corporate purposes.

The Company has an unsecured five year $465 million U.S. credit agreement and a five year C$50 million (U.S. $34 million at February 26, 2000) Canadian credit agreement (the "Credit Agreement") expiring June 10, 2002 with a syndicate of banks, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings. Borrowings under the U.S. credit agreement were $60 million and $130 million at February 26, 2000 and February 27, 1999, respectively. The Canadian subsidiary had no outstanding borrowings at February 26, 2000 or February 27, 1999. Accordingly, as of February 26, 2000, the Company has available $405 million under its U.S. credit agreement and C$50 million (U.S. $34 million at February 26, 2000) under the Canadian credit agreement. As of February 27, 1999, the Company had available $335 million under its U.S. credit agreement and C$50 million (U.S. $33 million at February 27, 1999) under the Canadian credit agreement.

The U.S. has uncommitted lines of credit with various banks amounting to $110 million and $211 million as of February 26, 2000 and February 27, 1999, respectively. Borrowings under these uncommitted lines of credit amounted to $27 million and $23 million as of February 26, 2000 and February 27, 1999, respectively. Accordingly, as of February 26, 2000, the Company has $83 million available in uncommitted lines of credit.

The Company's Canadian subsidiary, The Great Atlantic & Pacific Company of Canada, Limited has outstanding $75 million of 5 year Notes denominated in U.S. dollars that are due on November 1, 2000. Additionally, the Company has U.S. bank borrowings of $87 million. Both the Notes and the U.S. bank borrowings have been classified as long-term debt based on Management's intent and ability, through the use of the Credit Agreement, to refinance such Notes and bank borrowings on a long-term basis.

The Company has filed two Shelf Registration Statements dated January 23, 1998 and June 23, 1999, allowing it to offer up to $350 million of debt and/or equity securities as of February 26, 2000 at terms determined by market conditions at the time of sale.

During fiscal 1999, the Company funded its capital expenditures, debt repayments and cash dividends through internally generated funds combined with proceeds from disposals of property, bank borrowings, revolving lines of credit and the issuance of $200 million aggregate principal amount of 9.375% senior quarterly interest bonds on August 6, 1999.

Management's Discussion and Analysis (cont.)

Capital expenditures totaled $480 million during fiscal 1999, which included 54 new supermarkets, and 59 remodels and enlargements.

For fiscal 2000, the Company plans to incur approximately $150 million, before tax benefits, in cash expenditures relating to Great Renewal - Phase II. For fiscal 2001, expected Great Renewal - Phase II cash expenditures approximate $100 million, before tax. Provided Great Renewal - Phase II plan objectives are met, fiscal 2001 cash expenditures will be significantly offset by cash benefits.

In addition to Great Renewal - Phase II, for fiscal 2000, the Company has planned capital expenditures of approximately $500 million primarily to open 50 to 60 new supermarkets and remodel or expand up to 65 stores. It has been the Company's experience over the past several years that it typically takes 12 to 15 months or longer after opening for a new store to recoup its opening costs and become profitable thereafter. Risks inherent in retail real estate investments are primarily associated with competitive pressures in the marketplace. The Company currently expects to close a total of approximately 35 stores in fiscal year 2000.

The Company plans to continue with similar levels of capital expenditures in fiscal 2001 and several years thereafter. The Company's concentration will be on larger stores in the 50,000 to 65,000 square foot range. Costs of each project will vary significantly based upon size, marketing format, geographic area and development involvement required from the Company. The planned costs of these projects approximate $4 million for a new store and $1.5 million for a remodel or enlargement. Traditionally, the Company leases real estate and expends capital on leasehold improvements and store fixtures and fittings. Consistent with the Company's history, most new store activity will be directed into those areas where the Company achieves its best profitability. Remodeling and enlargement programs are normally undertaken based upon competitive opportunities and usually involve updating a store to a more modern and competitive format.

The fiscal 1999 quarterly dividend was $0.10 per share and amounted to $15.3 million. The Company expects to maintain the same dividend amount for fiscal 2000.

At fiscal year end 1999, the Company's existing senior debt rating was Ba1 with Moody's Investors Service and BBB- with Standard & Poor's Ratings Group. A change in either of these ratings could affect the availability and cost of financing.

The Company believes that its current cash resources, including the funds available under the Credit Agreement, together with cash generated from operations, will be sufficient for the Company's 2000 Great Renewal - Phase II and other capital expenditure programs, mandatory scheduled debt repayments and dividend payments throughout fiscal 2000. Additionally, alternative financing arrangements will be considered when it is advantageous to the Company.

MARKET RISK

Market risk represents the risk of loss from adverse market changes that may impact the consolidated financial position, results of operations or cash flows of the Company. Among other possible market risks, the Company is exposed to such risk in the areas of interest rates and foreign currency exchange rates.

Interest Rates

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's debt obligations. The Company has no cash flow exposure due to rate changes on its $775 million in notes as of February 26, 2000 because they are at fixed interest rates. However, the Company does have cash flow exposure on its committed and uncommitted bank lines of credit due to its variable LIBOR pricing. Accordingly, as of fiscal 1999, a 1% change in LIBOR will result in interest expense fluctuating approximately $0.9 million.

Foreign Exchange Risk

The Company is exposed to foreign exchange risk to the extent of adverse fluctuations in the Canadian dollar. Based upon historical Canadian currency movement, the Company does not believe that reasonably possible near-term change in the Canadian currency of 10% will result in a material effect on future earnings, financial position or cash flows of the Company.

The Company entered into a five year cross-currency swap agreement to hedge five year

Management's Discussion and Analysis (cont.)

notes in Canada that are denominated in U.S. dollars. The Company does not have any currency risk regarding the Canadian five year notes. The Company is exposed to currency risk in the event of default by the counterparty. Such default is remote, as the counterparty is a widely recognized investment banker. The fair value of the cross-currency swap agreement was favorable to the Company by $4.6 million as of February 26, 2000. A 10% change in Canadian exchange rates would have resulted in the fair value fluctuating approximately $6.9 million in fiscal 1999.

YEAR 2000 COMPLIANCE

The Company reviewed the entire range of its operations relating to Year 2000 issues. Remediation and testing are complete for both information technology ("IT") and non-IT mission critical areas that required attention and resources in order to be Year 2000 compliant.

The costs incurred to address the Company's Year 2000 issues were approximately $10 million.

Although the Company has determined that its major vendors are Year 2000 compliant and the Company has not experienced any significant Year 2000 related issues with its vendors to date, there still is risk of possible failures by vendors to respond to Year 2000 issues. The Company has a contingency plan in place to mitigate the potential effects, if any, that may arise out of such failures.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement requires that all derivative instruments be measured at fair value and recognized in the balance sheet as either assets or liabilities. In addition, the accounting for changes in the fair value of a derivative (gains and losses) depends on the intended use of the derivative and the resulting designation. For a derivative designated as a hedge, the change in fair value will be recognized as a component of other comprehensive income; for a derivative not designated as a hedge, the change in the fair value will be recognized in the Statements of Consolidated Operations.

In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" which delays the adoption of SFAS 133 for one year, to fiscal years beginning after June 15, 2000. The Company plans to adopt SFAS 133 in the first quarter of fiscal 2001. The Company is currently evaluating the impact this pronouncement will have on the Consolidated Financial Statements.

CAUTIONARY NOTE

This report contains certain forward-looking statements about the future performance of the Company which are based on Management's assumptions and beliefs in light of the information currently available to it. The Company assumes no obligation to update the information contained herein. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements including, but not limited to: competitive practices and pricing in the food industry generally and particularly in the Company's principal markets; the Company's relationships with its employees and the terms of future collective bargaining agreements; the costs and other effects of legal and administrative cases and proceedings; the nature and extent of continued consolidation in the food industry; changes in the financial markets which may affect the Company's cost of capital and the ability of the Company to access the public debt and equity markets to refinance indebtedness and fund the Company's capital expenditure program on satisfactory terms; supply or quality control problems with the Company's vendors and changes in economic conditions which affect the buying patterns of the Company's customers.

Statements of Consolidated Operations

(Dollars in thousands, except per share amounts)	Fiscal 1999 (52 weeks)	Fiscal 1998 (52 weeks)	Fiscal 1997 (53 weeks)
Sales	$ 10,151,334	$10,179,358	$10,262,243
Cost of merchandise sold	(7,243,718)	(7,260,110)	(7,327,365)
Gross margin	2,907,616	2,919,248	2,934,878
Store operating, general and administrative expense	(2,802,786)	(3,083,639)	(2,779,619)
Income (loss) from operations	104,830	(164,391)	155,259
Interest expense	(84,045)	(71,497)	(80,152)
Interest income	6,218	6,604	7,793
Income (loss) before income taxes and extraordinary item	27,003	(229,284)	82,900
(Provision) benefit for income taxes	(12,843)	162,120	(19,314)
Income (loss) before extraordinary item	14,160	(67,164)	63,586
Extraordinary loss on early extinguishment of debt (net of income tax benefit of $394)	-	-	(544)
Net income (loss)	$ 14,160	$ (67,164)	$ 63,042
Earnings (loss) per share:			
Income (loss) before extraordinary item - basic and diluted	$ 0.37	$ (1.75)	$ 1.66
Extraordinary loss on early extinguishment of debt - basic and diluted	-	-	(0.01)
Net income (loss) per share - basic and diluted	$ 0.37	$ (1.75)	$ 1.65

See Notes to Consolidated Financial Statements.

Statements of Consolidated Shareholders' Equity and Comprehensive Income (Loss)

(Dollars in thousands, except share amounts)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Common stock:			
Shares:			
Issued and outstanding at beginning of year	38,290,716	38,252,966	38,247,716
Issuance of 20,000 shares of restricted common stock	20,000	-	-
Stock options exercised	56,500	37,750	5,250
Issued and outstanding at end of year	38,367,216	38,290,716	38,252,966
Balance at beginning of year	$ 38,291	$ 38,253	$ 38,247
Issuance of 20,000 shares of restricted common stock	20	-	-
Stock options exercised	56	38	6
Balance at end of year	$ 38,367	$ 38,291	$ 38,253
Additional paid-in capital:			
Balance at beginning of year	$ 454,971	$453,894	$ 453,751
Issuance of 20,000 shares of restricted common stock	631	-	-
Stock options exercised	1,499	1,077	143
Balance at end of year	$ 457,101	$ 454,971	$ 453,894
Unamortized value of restricted stock grant:			
Issuance of 20,000 shares of restricted common stock	$ (651)	$ -	$ -
Amortization of restricted stock grant	210	-	-
Balance at end of year	$ (441)	$ -	$ -
Accumulated other comprehensive (loss) income:			
Balance at beginning of year	$ (69,039)	$ (61,025)	$ (49,694)
Comprehensive income (loss)	8,343	(8,014)	(11,331)
Balance at end of year	$ (60,696)	$ (69,039)	$ (61,025)
Retained earnings:			
Balance at beginning of year	$ 413,034	$ 495,510	$ 447,768
Net income (loss)	14,160	(67,164)	63,042
Cash dividends	(15,333)	(15,312)	(15,300)
Balance at end of year	$ 411,861	$413,034	$ 495,510

Comprehensive income (loss)			
Net income (loss)	$ 14,160	$ (67,164)	$ 63,042
Foreign currency translation adjustment	6,784	(9,936)	(5,121)
Minimum pension liability adjustment	1,559	1,922	(6,210)
Other comprehensive income (loss)	8,343	(8,014)	(11,331)
Total comprehensive income (loss)	$ 22,503	$ (75,178)	$ 51,711

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(Dollars in thousands)	February 26, 2000	February 27, 1999
Assets		
Current assets:		
Cash and short-term investments	$ 124,603	$ 136,810
Accounts receivable	227,078	204,700
Inventories	791,150	841,030
Prepaid expenses and other current assets	80,052	60,570
Total current assets	1,222,883	1,243,110
Property:		
Land	137,672	141,061
Buildings	420,345	406,122
Equipment and leasehold improvements	2,274,349	2,147,418
Total-at cost	2,832,366	2,694,601
Less accumulated depreciation and amortization	(1,042,704)	(1,097,142)
	1,789,662	1,597,459
Property leased under capital leases	94,146	89,028
Property-net	1,883,808	1,686,487
Other assets	228,834	231,217
Total assets	$3,335,525	$3,160,814
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 2,382	$ 4,956
Current portion of obligations under capital leases	11,327	11,483
Accounts payable	583,142	557,318
Book overdrafts	112,465	160,288
Accrued salaries, wages and benefits	155,649	152,107
Accrued taxes	51,611	54,819
Other accruals	208,002	193,092
Total current liabilities	1,124,578	1,134,063
Long-term debt	865,675	728,390
Long-term obligations under capital leases	117,870	115,863
Other non-current liabilities	381,210	345,241
Commitments and contingencies		
Shareholders' equity:		
Preferred stock-no par value; authorized - 3,000,000 shares; issued - none	-	-
Common stock-$1 par value; authorized - 80,000,000 shares; issued and outstanding 38,367,216 and 38,290,716 shares, respectively	38,367	38,291
Additional paid-in capital	457,101	454,971
Unamortized value of restricted stock grant	(441)	-
Accumulated other comprehensive loss	(60,696)	(69,039)
Retained earnings	411,861	413,034
Total shareholders' equity	846,192	837,257
Total liabilities and shareholders' equity	$3,335,525	$3,160,814

See Notes to Consolidated Financial Statements.

Statements of Consolidated Cash Flows

(Dollars in thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Cash Flows From Operating Activities:			
Net income (loss)	$ 14,160	$ (67,164)	$ 63,042
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Store/Facilities exit charge and asset write-off	14,078	224,580	-
Depreciation and amortization	232,712	233,663	234,236
Deferred income tax provision (benefit) on income (loss) before extraordinary item	8,258	(165,672)	11,425
(Gain) loss on disposal of owned property and write-down of property, net	(2,973)	4,541	(11,363)
(Increase) decrease in receivables	(23,041)	19,562	(14,116)
Decrease (increase) in inventories	60,026	34,762	(6,090)
Decrease (increase) in prepaid expenses and other current assets	2,392	6,816	(2,630)
(Increase) decrease in other assets	(16,630)	2,071	(1,435)
Increase (decrease) in accounts payable	16,546	122,251	(24,542)
Increase in accrued expenses	4,797	2,633	8,594
Increase in other accruals	518	43,604	4,250
Increase in non-current other liabilities	5,432	28,203	15,906
Other, net	(1,615)	(2,764)	(1,050)
Net cash provided by operating activities	314,660	487,086	276,227
Cash Flows From Investing Activities:			
Expenditures for property	(479,572)	(438,345)	(267,623)
Proceeds from disposal of property	101,319	12,546	31,783
Net cash used in investing activities	(378,253)	(425,799)	(235,840)
Cash Flows From Financing Activities:			
Proceeds under revolving lines of credit	165,102	451,523	947,148
Payments on revolving lines of credit	(235,150)	(411,632)	(991,296)
Proceeds from long-term borrowings	206,010	3,685	304,213
Payments on long-term borrowings	(4,975)	(22,456)	(267,848)
Principal payments on capital leases	(11,968)	(12,139)	(13,711)
(Decrease) increase in book overdrafts	(49,354)	12,079	(28,145)
Deferred financing fees	(6,298)	-	(2,471)
Proceeds from stock options exercised	1,555	1,115	149
Cash dividends	(15,333)	(15,312)	(15,300)
Net cash provided by (used in) financing activities	49,589	6,863	(67,261)
Effect of exchange rate changes on cash and short-term investments	1,797	(2,277)	(1,019)
Net (Decrease) Increase in Cash and Short-term Investments	(12,207)	65,873	(27,893)
Cash and Short-term Investments at Beginning of Year	136,810	70,937	98,830
Cash and Short-term Investments at End of Year	$ 124,603	$ 136,810	$ 70,937

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. The Company operates retail supermarkets in the United States and Canada. The U.S. operations are mainly in the Eastern part of the U.S. and certain parts of the Midwest. See the following footnotes for additional information on the Canadian Operations: Operating Segments, Wholesale Franchise Business, Income Taxes and Retirement Plans and Benefits. The principal shareholder of the Company, Tengelmann Warenhandelsgesellschaft, owned 54.81% of the Company's common stock as of February 26, 2000.

Revenue Recognition

Retail revenue is recognized at point-of-sale while wholesale revenue is recognized when goods are shipped.

Fiscal Year

The Company's fiscal year ends on the last Saturday in February. Fiscal 1999 ended February 26, 2000, fiscal 1998 ended February 27, 1999 and fiscal 1997 ended February 28, 1998. Fiscal 1999 and fiscal 1998 were each comprised of 52 weeks while fiscal 1997 was comprised of 53 weeks.

Cash and Short-term Investments

Short-term investments that are highly liquid with an original maturity of three months or less are included in cash and short-term investments and are deemed to be cash equivalents.

Inventories

Store inventories are valued principally at the lower of cost or market with cost determined under the retail method. Warehouse and other inventories are valued primarily at the lower of cost or market with cost determined on a first-in, first-out basis. Inventories of certain acquired companies are valued using the last-in, first-out method, which was their practice prior to acquisition.

Advertising Costs

Advertising costs are expensed as incurred. The Company recorded advertising expense of $139 million for fiscal 1999, $136 million for fiscal 1998 and $138 million for fiscal 1997.

Properties

Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Real property leased under capital leases is amortized over the lives of the respective leases or over their economic useful lives, whichever is less. During fiscal 1999 and 1997, the Company disposed of certain assets which resulted in a pretax gain of $3 million and $11 million, respectively. During fiscal 1998, the Company disposed of certain assets which resulted in a pretax loss of $5 million.

Pre-opening Costs

The costs of opening new stores are expensed as incurred.

Software Costs

The Company capitalizes externally purchased software and amortizes it over three years. Amortization expense for fiscal 1999, fiscal 1998 and fiscal 1997 was $0.9 million, $0.8 million and $0.4 million, respectively.

Effective February 29, 1998, the Company adopted the provisions of the American Institute of Certified Public Accountants' Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". SOP 98-1 requires the capitalization of certain internally generated software costs. Such software is amortized over three years and for fiscal 1999 and 1998, the Company capitalized $0.9 million and $1.4 million, respectively, of such software costs and recorded amortization expense of $0.5 million and $0.1 million, respectively.

Earnings Per Share

In the fourth quarter of fiscal 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 requires dual presentation of basic and diluted earnings per share ("EPS") on the face of the Statements of

Notes to Consolidated Financial Statements (cont.)

Consolidated Operations and requires a reconciliation of the numerators and denominators of the basic and diluted EPS calculations. Basic EPS is computed by dividing net income by the weighted average shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options to issue common stock were exercised and converted to common stock.

The weighted average shares outstanding utilized in the basic EPS calculation were 38,330,379 for fiscal 1999, 38,273,859 for fiscal 1998 and 38,249,832 for fiscal 1997. The common stock equivalents that were added to the weighted average shares outstanding for purposes of diluted EPS were 85,041 for fiscal 1999 and 19,926 for fiscal 1997. The common stock equivalents for fiscal 1998 would have been 47,772; however, such shares were antidilutive and thus excluded from the diluted EPS calculation for fiscal 1998.

Excess of Cost over Net Assets Acquired

The excess of cost over fair value of net assets acquired is amortized on a straight-line basis between fifteen to forty years. The Company recorded amortization expense of $1.2 million for fiscal 1999 and $1.5 million for both fiscal 1998 and 1997. The accumulated amortization relating to goodwill amounted to $11.1 million and $13.2 million at February 26, 2000 and February 27, 1999, respectively. The decrease in accumulated amortization results from the disposal of the Atlanta division in the first quarter of fiscal 1999 (see "Store and Facilities Exit Costs" footnote for further details).

At each balance sheet date, Management reassesses the appropriateness of the goodwill balance based on forecasts of cash flows from operating results on an undiscounted basis. If the results of such comparison indicate that an impairment may exist, the Company will recognize a charge to operations at that time based upon the difference between the present value of the expected cash flows from future operating results (utilizing a discount rate equal to the Company's average cost of funds at that time) and the balance sheet value. The recoverability of goodwill is at risk to the extent the Company is unable to achieve its forecast assumptions regarding cash flows from operating results. At February 26, 2000, the Company estimates that the cash flows projected to be generated by the respective businesses on an undiscounted basis should be sufficient to recover the existing goodwill balance over its remaining life.

Long-Lived Assets

In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of ", the Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable.

Such review is based upon groups of assets and the undiscounted estimated future cash flows from such assets to determine if the carrying value of such assets are recoverable from their respective cash flows.

The Company recorded impairment losses during the year ended February 27, 1999 (see "Store and Facilities Exit Costs" footnote for further details).

Income Taxes

The Company provides deferred income taxes on temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws.

Current Liabilities

Certain accounts payable checks issued but not presented to banks frequently result in negative book balances for accounting purposes. Such amounts are classified as "Book overdrafts" in the Consolidated Balance Sheets.

The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $79 million at both February 26, 2000 and February 27, 1999, are included in the balance sheet caption "Accrued salaries, wages and benefits".

Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") with pro forma disclosure of net income and earnings per share as if the fair value based method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") had been applied.

Notes to Consolidated Financial Statements (cont.)

Comprehensive Income

Effective March 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income". This statement requires that all components of comprehensive income be reported prominently in the financial statements. Currently, the Company has other comprehensive income relating to foreign currency translation adjustment and minimum pension liability adjustment.

Accumulated other comprehensive loss as of February 26, 2000 includes foreign currency translation of $58.0 million and an additional minimum pension liability adjustment of $2.7 million, net of income tax benefit of $2.2 million. Accumulated other comprehensive loss as of February 27, 1999 includes foreign currency translation of $64.8 million and an additional minimum pension liability adjustment of $4.3 million, net of income tax benefit of $3.4 million.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Consolidated Balance Sheets include liabilities with respect to self-insured workers' compensation and general liability claims. The Company determines the required liability of such claims based upon various assumptions which include, but are not limited to, the Company's historical loss experience, industry loss standards, projected loss development factors, projected payroll, employee headcount and other internal data. It is reasonably possible that the final resolution of some of these claims may require significant expenditures by the Company in excess of its existing reserves, over an extended period of time and in a range of amounts that cannot be reasonably estimated.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements in order to conform to the current year's presentation.

New Accounting Pronouncements Not Yet Adopted

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement requires that all derivative instruments be measured at fair value and recognized in the balance sheet as either assets or liabilities. In addition, the accounting for changes in the fair value of a derivative (gains and losses) depends on the intended use of the derivative and the resulting designation. For a derivative designated as a hedge, the change in fair value will be recognized as a component of other comprehensive income; for a derivative not designated as a hedge, the change in the fair value will be recognized in the Statements of Consolidated Operations.

In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" which delays the adoption of SFAS 133 for one year, to fiscal years beginning after June 15, 2000. The Company plans to adopt SFAS 133 in the first quarter of fiscal 2001. The Company is currently evaluating the impact this pronouncement will have on the Consolidated Financial Statements.

STORE AND FACILITIES EXIT COSTS

In May 1998, the Company initiated a vigorous assessment of all aspects of its business operations in order to identify the factors that were impacting the performance of the Company.

As a result of the above assessment, in the third quarter of fiscal 1998, the Company decided to exit two warehouse facilities and a coffee plant in the U.S. and a bakery plant in Canada. In connection with the exit plan, the Company recorded a charge of approximately $11 million which is included in "Store operating, general and administrative expense" in the Statements of Consolidated Operations for fiscal 1998. The $11 million charge was comprised of $7 million of severance, $3 million of facilities occupancy costs for the period subsequent to closure and $1 million to write-down the facilities to their estimated fair value.

As of February 27, 1999, the Company had closed and terminated operations with respect to

Notes to Consolidated Financial Statements (cont.)

the warehouses and the coffee plant. The volume associated with the two warehouses has been transferred to other warehouses in close geographic proximity. Further, the manufacturing processes of the coffee plant have been transferred to the Company's remaining coffee processing facility. The processing associated with the Canadian bakery has been outsourced effective January 1999.

In addition, on December 8, 1998, the Company's Board of Directors approved a plan which included the exit of 127 underperforming stores throughout the United States and Canada and the disposal of two other properties. Included in the 127 stores are 31 stores representing the entire Richmond, Virginia market. Further on January 28, 1999, the Board of Directors approved the closure of five additional underperforming stores. In connection with the Company's plan to exit these 132 stores and the write-down of two properties, the Company recorded a charge in the fourth quarter of fiscal 1998 of approximately $215 million. This $215 million charge consisted of $8 million of severance, $1 million of facilities occupancy costs, $114 million of store occupancy costs, which principally relates to the present value of future lease obligations, net of anticipated sublease recoveries, which extend through fiscal 2028, an $83 million write-down of store fixed assets and a $9 million write-down to their estimated fair value of the two properties which are held for sale. To the extent fixed assets included in those stores identified for closure could be utilized in other continuing stores, the Company transferred those assets to continuing stores. The Company will scrap fixed assets that could not be transferred and accordingly, the write-down was calculated based upon an estimated scrap value. This fourth quarter charge of $215 million was reduced by approximately $2 million in fiscal 1998 due to changes in estimates of pension withdrawal liabilities and fixed asset write-downs from the time the original charge was recorded. The net charge of $213 million is included in "Store operating, general and administrative expense" in the Statements of Consolidated Operations for fiscal 1998.

In addition to the charges recorded in fiscal 1998, there are other charges related to the plan which could not be accrued at February 27, 1999 because they did not meet the criteria for accrual under EITF 94-3. Such costs have been expensed as incurred as the plan was being executed. During fiscal 1999, the Company recorded an additional pretax charge of $11 million for severance related to the 132 stores.

On April 26, 1999, the Company announced that it had reached definitive agreements to sell 14 stores in the Atlanta, Georgia market, two of which were previously included in the Company's store exit program. In conjunction with the sale, the Company decided to exit the entire Atlanta market and close the remaining 22 stores, as well as the distribution center and administrative office. Accordingly, at the time of the announcement, the Company recorded a fiscal 1999 first quarter net pretax charge of approximately $5 million. This charge is comprised of severance of $6 million, future lease commitments of $11 million, partially offset by a $12 million gain related to the disposition of fixed and intangible assets. The net charge is included in "Store operating, general and administrative expense" in the Statements of Consolidated Operations for fiscal 1999.

The Company paid $23 million of the total net severance charges from the time of the original charges through the end of fiscal 1999 which resulted from the termination of approximately 3,400 employees. The remaining individual severance payments will be paid by the end of fiscal 2000.

The following tabular reconciliation summarizes the activity related to the aforementioned charges since their initial recording:

(Dollars in thousands)	Store Occupancy	Fixed Assets	Severance and Benefits	Facilities Occupancy	Total
Original Charge	$113,732	$ 93,355	$ 15,102	$ 4,018	$ 226,207
Addition (1)	1,900	-	-	-	1,900
Utilization	(1,100)	(92,639)	(3,794)	(311)	(97,844)
Adjustment (2)	-	(716)	(1,242)	331	(1,627)
Reserve Balance at Feb. 27, 1999	114,532	-	10,066	4,038	128,636
Addition (3)	15,730	-	17,060	3,188	35,978
Utilization	(4,614) (4)	(295)	(19,626)	(3,659)	(28,194)
Adjustment (5)	(22,195)	295	-	-	(21,900)
Reserve Balance at Feb. 26, 2000	$103,453	$ -	$ 7,500	$ 3,567	$ 114,520

(1) The fiscal 1998 addition represents an increase to the store occupancy reserve for the present value interest accrued.

(2) The fiscal 1998 adjustment represents changes in estimates from the original date the respective charges were recorded. The adjustment to severance and benefits relates to a change in the estimate of the calculated pension withdrawal liability.

Notes to Consolidated Financial Statements (cont.)

(3) The fiscal 1999 addition represents an increase to the store occupancy reserve for the present value interest accrued ($7.4 million), the additional severance cost ($11.5 million) and the cost of exiting the Atlanta market (including store occupancy of $8.3 million, severance of $5.6 million and facilities costs of $3.2 million).

(4) Store occupancy utilization for fiscal 1999 is comprised of $29.6 million of lease and other occupancy payments for the period, net of $25.0 million of net proceeds on the assignment of leases which was considered in the original charge recorded during fiscal 1998.

(5) At each balance sheet date, Management assesses the adequacy of the reserve balance to determine if any adjustments are required as a result of changes in circumstances and/or estimates. The Company has made favorable progress to date in marketing and subleasing the closed stores. As a result, in the third quarter of fiscal 1999, the Company recorded a net reduction in "Store operating, general and administrative expense" of $21.9 million to reverse a portion of the $215 million restructuring charge recorded in fiscal 1998. This amount represents a $22.2 million reduction in "Store operating, general and administrative expense" for lower store occupancy costs resulting primarily from earlier than anticipated lease terminations and subleases. The credit is partially offset by $0.3 million of additional fixed asset write-downs resulting from lower than anticipated proceeds from the sale of fixed assets.

Based upon current available information, Management evaluated the reserve balance of $114.5 million as of February 26, 2000 and has concluded that it is adequate. The Company will continue to monitor the status of the vacant properties and further adjustments to the reserve balance may be recorded in the future, if necessary.

As of February 26, 2000, the Company closed all 34 stores in the Atlanta, Georgia market and 131 of the 132 other stores, including all 31 stores in the Richmond, Virginia market. The remaining store is in the process of being disposed of.

At February 26, 2000, $28.2 million of the reserve is included in "Other accruals" and $86.3 million is included in "Other non-current liabilities" in the Consolidated Balance Sheets.

Included in the Statements of Consolidated Operations are the operating results of the 132 underperforming stores and the 34 Atlanta stores which the Company has exited. The operating results of these stores are as follows:

(Dollars in thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Sales	$200,208	$1,069,441	$1,205,431
Operating Loss	$ (30,572)	$ (43,105)	$ (23,210)

INVENTORY

Approximately 13% and 18% of the Company's inventories are valued using the last-in, first-out ("LIFO") method at February 26, 2000 and February 27, 1999, respectively. Such inventories would have been $20 million and $19 million higher at February 26, 2000 and February 27, 1999, respectively, if the retail and first-in, first-out methods were used. The Company recorded LIFO charges of approximately $1 million during both fiscal 1999 and 1998. During fiscal 1997, the Company recorded a LIFO credit of $0.4 million. Liquidation of LIFO layers in the periods reported did not have a significant effect on the results of operations.

WHOLESALE FRANCHISE BUSINESS

The Company serviced 65 franchised stores as of February 26, 2000 and 55 stores as of February 27, 1999. These franchised stores are required to purchase inventory exclusively from the Company which acts as a wholesaler to the franchisees. During fiscal 1999 and 1998, the Company had wholesale sales to these franchised stores of $523 million and $387 million, respectively. A majority of the franchised stores were converted from Company operated supermarkets. The Company subleases the stores and leases the equipment in the stores to the franchisees. The Company also provides merchandising, advertising, accounting and other consultative services to the franchisees for which it receives a nominal fee which mainly represents the reimbursements of costs incurred to provide such services (see "Lease Obligations" footnote).

Included in other assets are franchised business receivables, net of allowance for doubtful accounts, amounting to $53.4 million as of February 26, 2000 and $36.4 million as of February 27, 1999. The inventory notes are collateralized by the inventory

Notes to Consolidated Financial Statements (cont.)

in the stores, while the equipment lease receivables are collateralized by the equipment in the stores. The current portion of the inventory and equipment leases of approximately $4.1 million as of February 26, 2000 and $2.1 million as of February 27, 1999 are included in accounts receivable. The repayment of the inventory notes and equipment leases are dependent on positive operating results of the stores. To the extent that the franchisees incur operating losses, the Company establishes an allowance for doubtful accounts. The Company continually assesses the sufficiency of the allowance on a store by store basis based upon the operating losses incurred and the related collateral underlying the amounts due from the franchisees. In the event of default by a franchisee, the Company reserves the option to reacquire the inventory and equipment at the store and operate the franchise as a corporate owned store.

Included below are the amounts due to the Company for the next five years and thereafter from the franchised stores for equipment leases and inventory notes.

(Dollars in thousands)	
2000	$ 9,910
2001	10,371
2002	10,371
2003	10,371
2004	10,371
2005 and thereafter	29,608
	81,002
Less interest portion	(23,593)
Due from franchise business	$ 57,409

For the fiscal years ended February 26, 2000 and February 27, 1999, approximately $18 million and $8 million, respectively, of the franchise business notes relate to equipment leases which were non-cash transactions and, accordingly, have been excluded from the Statements of Consolidated Cash Flows.

INDEBTEDNESS

Debt consists of:

(Dollars in thousands)	February 26, 2000	February 27, 1999
9.375% Notes, due August 1, 2039	$ 200,000	$ -
7.75% Notes, due April 15, 2007	300,000	300,000
7.70% Senior Notes, due January 15, 2004	200,000	200,000
7.78% Notes, due November 1, 2000	75,000	75,000
Mortgages and Other Notes, due 2000 through 2003 (average interest rates at year end of 7.12% and 5.81%, respectively)	8,023	7,417
U.S. Bank Borrowings at 6.35% and 5.49%, respectively	87,000	153,100
Less unamortized discount on 7.75% Notes	(1,966)	(2,171)
	868,057	733,346
Less current portion	(2,382)	(4,956)
Long-term debt	$ 865,675	$ 728,390

The Company has an unsecured five year $465 million U.S. credit agreement and a five year C$50 million Canadian credit agreement (the "Credit Agreement") expiring June 10, 2002 with a syndicate of banks, enabling it to borrow funds on a revolving basis sufficient to refinance short-term borrowings. The Company pays a facility fee of 0.25% per annum on the total commitment of the U.S. and Canadian revolving credit facilities. Borrowings under the U.S. credit agreement were $60 million and $130 million at February 26, 2000 and February 27, 1999, respectively. The Canadian subsidiary had no outstanding borrowings at February 26, 2000 or February 27, 1999. Accordingly, as of February 26, 2000, the Company has available $405 million under its U.S. credit agreement and C$50 million (U.S. $34 million at February 26, 2000) under the Canadian credit agreement. As of February 27, 1999, the Company had available $335 million under its U.S. credit agreement and C$50 million (U.S. $33 million at February 27, 1999) under the Canadian credit agreement.

The U.S. has uncommitted lines of credit with various banks amounting to $110 million and $211 million as of February 26, 2000 and February 27, 1999, respectively. Borrowings under these uncommitted lines of credit amounted to $27 million and $23 million as of February 26, 2000 and February 27, 1999, respectively. Accordingly, as of February 26, 2000, the Company has available $83 million in uncommitted lines of credit.

As of February 26, 2000, the Company has outstanding a total of $575 million of unsecured, non-callable public debt securities in the form of $75 million 7.78% Notes due November 1, 2000, $200 million 7.70% Notes due January 15, 2004 and $300 million 7.75% Notes due April 15, 2007. The Company also has outstanding $200 million unsecured, public debt securities in the form of 9.375% Notes due August 1, 2039 which are callable after five years.

On August 6, 1999, the Company issued $200 million aggregate principal amount 9.375% senior quarterly interest bonds due August 1, 2039. The

Notes to Consolidated Financial Statements (cont.)

Company used the net proceeds from the issuance of the bonds to repay borrowings under its revolving credit facility, to finance the purchase of 16 stores, (6 in the United States and 10 in Canada) and for working capital and general corporate purposes.

On April 15, 1997, the Company issued $300 million 7.75% 10 year Notes due April 15, 2007. The Company used the net proceeds to reduce bank borrowings under the U.S. and Canadian revolving credit facilities, to prepay other indebtedness and for general corporate purposes.

The Company's Canadian subsidiary, The Great Atlantic & Pacific Company of Canada, Limited ("A&P Canada"), has outstanding U.S. $75 million 5 year Notes denominated in U.S. dollars that were issued in October 1995 and are due on November 1, 2000. The Notes have been classified as long-term debt based on Management's ability and intent to refinance these borrowings on a long-term basis. In conjunction with the issuance of the Notes, A&P Canada entered into a five year cross-currency swap agreement expiring November 1, 2000. The cross-currency swap was executed for protection against the effect of a decrease in Canadian exchange rates on both the semi-annual interest payments and the final principal payment due to the Company's U.S. bondholders. The cross-currency swap enables the Company to pay in Canadian dollars a fixed rate of interest of 9.23% on a notional amount of C$100 million for the $75 million 7.78% Notes denominated in U.S. dollars. The cost of the cross-currency swap of 1.45% is charged to interest expense. The Company records an asset or liability to the extent that an eventual transaction gain or loss is expected to be recorded upon the settlement of the notional amount of the underlying debt. Accordingly, the Company has recorded in other assets the receivable due from the counterparty amounting to approximately $5.8 million and $8.4 million as of February 26, 2000 and February 27, 1999, respectively. The fair value of the cross-currency swap was favorable to the Company by $4.6 million and $6.9 million as of February 26, 2000 and February 27, 1999, respectively. The Company is exposed to credit losses in the event of nonperformance by the counterparty to its currency swap. However, the Company anticipates that the counterparty will be able to fully satisfy its obligations under the contract.

On April 15, 1997, A&P Canada entered into an interest rate swap agreement with a notional amount of C$100 million expiring November 1, 2000 where A&P Canada receives a fixed rate of interest and pays a variable rate of interest. In August of 1998, A&P Canada assigned the interest rate swap agreement to a financial institution and received consideration of $0.6 million. The consideration received is being amortized as a reduction to interest expense until November 1, 2000.

The Company's loan agreements and certain of its notes contain various financial covenants which require, among other things, minimum net worth and maximum levels of indebtedness and lease commitments. As a result of the store exit charge recorded on December 8, 1998 (see "Store and Facilities Exit Costs" footnote), the Company would not have been in compliance with certain of its covenants as of February 27, 1999, relating to the Credit Agreement. As such, the Company amended the Credit Agreement prior to February 27, 1999. The Company was in compliance with all such financial covenants, as amended, as of February 26, 2000 and believes that it will continue to be in compliance.

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately $9 million at both February 26, 2000 and February 27, 1999.

In fiscal 1997, the Company recorded an extraordinary charge of $0.5 million, net of a tax benefit of $0.4 million relating to the early extinguishment of debt which amounted to $.01 per share - basic and diluted. The Company retired at a premium approximately $20 million in mortgages with a weighted average interest rate of 9.4%.

The U.S. bank borrowings of $87 million and $153 million are classified as non-current as of February 26, 2000 and February 27, 1999, respectively, as the Company has the ability and intent to refinance these borrowings on a long-term basis.

The Company has filed two Shelf Registration Statements dated January 23, 1998 and June 23, 1999, allowing it to offer up to $350 million of debt and equity securities as of February 26, 2000 at terms determined by market conditions at the time of sale.

Maturities for the next five fiscal years and

Notes to Consolidated Financial Statements (cont.)

thereafter are: 2000-$2 million; 2001-$1 million; 2002-$163 million; 2003-$200 million; 2004-$0; 2005 and thereafter - $504 million. Interest payments on indebtedness were approximately $66 million for fiscal 1999, $56 million for fiscal 1998 and $58 million for fiscal 1997.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments are as follows:

(Dollars in thousands)	February 26, 2000		February 27, 1999	
Liabilities:	Carrying Amount	Fair Value	Carrying Amount	Fair Value
9.375% Notes, due August 1, 2039	$200,000	$175,000	$ -	$ -
7.75% Notes, due April 15, 2007	$298,034	$270,094	$297,829	$287,384
7.70% Senior Notes, due January 15, 2004	$200,000	$188,250	$200,000	$197,271
7.78% Notes, due November 1, 2000	$ 75,000	$ 74,438	$ 75,000	$ 75,243
Total Indebtedness	$868,057	$802,805	$733,346	$720,415

Fair value for the public debt securities is based on quoted market prices. With respect to all other indebtedness, Management has evaluated such debt instruments and has determined, based on interest rates and terms, that the fair value of such indebtedness approximates carrying value at both February 26, 2000 and February 27, 1999. As of February 26, 2000 and February 27, 1999, the carrying values of cash and short-term investments, accounts receivable and accounts payable approximated fair values due to the short-term maturities of these instruments.

At February 26, 2000 and February 27, 1999, the estimated fair value of the cross-currency swap agreement was as follows:

(Dollars in thousands)	February 26, 2000		February 27, 1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cross-currency swap	$5,758	$4,568	$8,438	$6,927

The fair values were determined by the counterparty, which is a widely recognized investment banker.

As of the end of fiscal 1999, the Company holds equity securities of both common and cumulative preferred stock in Isosceles PLC, which were written-off in their entirety during fiscal 1992. There are no quoted market prices for these securities and it is not practicable, considering the materiality of these securities to the Company, to obtain an estimate of their fair value. The Company believes that the fair value for these securities is zero based upon Isosceles' current and prior years' results.

LEASE OBLIGATIONS

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company also leases some store equipment and trucks.

The Consolidated Balance Sheets include the following:

(Dollars in thousands)	Feb. 26, 2000	Feb. 27, 1999
Real property leased under capital leases	$ 207,117	$ 210,094
Accumulated amortization	(112,971)	(121,066)
	$ 94,146	$ 89,028

During fiscal 1999 and 1998, the Company entered into new capital leases totaling $16 million and $12 million, respectively. The Company did not enter into any new capital leases during fiscal 1997. These capital lease amounts are non-cash transactions and, accordingly, have been excluded from the Statements of Consolidated Cash Flows. Interest paid as part of capital lease obligations was approximately $14 million in both fiscal 1999 and 1998 and $16 million in fiscal 1997.

Rent expense for operating leases consists of:

(Dollars in thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Minimum rentals	$194,158	$193,703	$181,061
Contingent rentals	3,780	3,987	5,109
	$197,938	$197,690	$186,170

Future minimum annual lease payments for capital leases and noncancelable operating leases in effect at February 26, 2000 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established. In addition, the Company subleases 65 stores to the franchise business. Included in the operating lease table below are the rental payments made by the Company partially offset by the rental income received from the franchised stores.

Notes to Consolidated Financial Statements (cont.)

(Dollars in thousands) Fiscal	Capital Leases Real Property	Operating Leases
2000	$ 25,536	$ 211,640
2001	24,709	206,608
2002	22,898	196,218
2003	20,691	186,050
2004	18,925	179,212
2005 and thereafter	151,627	1,809,206
	264,386	$2,788,934
Less executory costs	(1,247)	
Net minimum rentals	263,139	
Less interest portion	(133,942)	
Present value of net minimum rentals	$ 129,197	

INCOME TAXES

The components of income (loss) before income taxes and extraordinary item are as follows:

(Dollars in thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
United States	$ (77)	$ (244,573)	$45,644
Canadian	27,080	15,289	37,256
Total	$27,003	$ (229,284)	$82,900

The provision (benefit) for income taxes before extraordinary item consists of the following:

(Dollars in thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Current:			
Federal	$ 872	$ -	$ 4,171
Canadian	710	552	700
State and local	3,003	3,000	3,018
	4,585	3,552	7,889
Deferred:			
Federal	121	(77,489)	11,076
Canadian	12,045	6,806	16,624
State and local	(3,908)	(25,786)	349
Canadian valuation allowance	-	(69,203)	(16,624)
	8,258	(165,672)	11,425
	$12,843	$ (162,120)	$19,314

The deferred income tax provision (benefit) results primarily from the annual change in temporary differences between amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws, net operating tax loss carryforwards and in fiscal 1998 and 1997, the Canadian valuation allowance.

The Company recorded income tax provisions amounting to $13 million in fiscal 1999 as compared to income tax benefits of $162 million for fiscal 1998 and income tax provisions of $19 million for fiscal 1997. The fiscal 1998 benefit of $162 million includes reversals of the Canadian operations deferred tax valuation allowance. During the first three quarters of fiscal 1998, the Company reversed approximately $9 million of the Canadian valuation allowance to the extent that the Canadian operations had taxable income. In addition, in the fourth quarter of fiscal 1998, the Company concluded that it was more likely than not that the net deferred tax assets related to the Canadian operations would be realized based upon Management's plan to close underperforming stores in Canada (see "Store and Facilities Exit Costs" footnote), the implementation of certain tax strategies and the continued performance improvements of the Canadian operations. Accordingly, the Company reversed the remaining portion of the Canadian deferred tax valuation allowance amounting to approximately $60 million. The deferred tax benefit recorded for U.S. operations of approximately $103 million mainly relates to book and tax differences of the store and facilities exit costs recorded in fiscal 1998. The fiscal 1997 income tax provisions include reversals of the Canadian valuation allowance of $17 million. These reversals were recorded to the extent that the Canadian operations had taxable income. However, Management had still concluded that it was more likely than not that the Canadian net deferred tax assets would not be realized, and through the end of fiscal 1997, the Company provided a full valuation allowance for its Canadian net deferred tax assets, principally net operating loss carryforwards.

The Company has elected to permanently reinvest earnings of the Canadian subsidiary. Accordingly, the Company does not provide for taxes associated with Canada's undistributed earnings.

As of February 26, 2000, the Company had net operating tax loss carryforwards of approximately $133 million, consisting of $80 million from the Canadian operations and $53 million from the U.S. operations. The Canadian portion of the net operating loss carryforwards will expire between February 2002 and February 2007 and the U.S. portion will expire between February 2019 and February 2020.

A reconciliation of income taxes at the 35% federal statutory income tax rate for fiscal 1999, 1998 and 1997 to income taxes as reported is as follows:

(Dollars in thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Income taxes computed at federal statutory income tax rate	$9,451	$ (80,249)	$29,015
State and local income taxes, net of federal tax benefit	(588)	(14,810)	2,188
Tax rate differential relating to Canadian operations	3,278	2,007	4,155
Canadian valuation allowance	-	(69,203)	(16,624)
Goodwill and other permanent differences	702	135	580
Income taxes, as reported	$12,843	$(162,120)	$19,314

Notes to Consolidated Financial Statements (cont.)

Income tax payments, net of refunds, for fiscal 1999 and 1998 were approximately $6 million and $2 million, respectively. For fiscal 1997, the Company had net income tax refunds of $1 million.

The components of net deferred tax assets (liabilities) are as follows:

(Dollars in thousands)	Feb. 26, 2000	Feb. 27, 1999
Current assets:		
Insurance reserves	$ 31,073	$ 20,158
Other reserves and accrued benefits	40,659	31,219
Accrued postretirement and postemployment benefits	1,406	2,717
Lease obligations	1,315	1,472
Pension obligations	4,241	4,486
Miscellaneous	6,612	4,055
	85,306	64,107
Current liabilities:		
Inventories	(15,561)	(14,697)
Health and welfare	(9,841)	(9,167)
Miscellaneous	(5,693)	(6,519)
	(31,095)	(30,383)
Deferred income taxes included in prepaid expenses and other current assets	$ 54,211	$ 33,724
Non-current assets:		
Isosceles investment	$ 42,617	$ 42,617
Alternative minimum tax	7,500	7,500
Fixed assets	459	3,449
Other reserves	56,372	74,397
Lease obligations	14,530	15,787
Net operating loss carryforwards	75,417	66,736
Insurance reserves	4,200	5,881
Accrued postretirement and postemployment benefits	31,035	35,387
Pension obligations	4,140	7,527
Step rents	15,098	13,619
Miscellaneous	7,364	5,308
	258,732	278,208
Non-current liabilities:		
Fixed assets	(244,050)	(237,213)
Pension obligations	(20,807)	(21,136)
Miscellaneous	(2,352)	(2,590)
	(267,209)	(260,939)
Net non-current deferred income tax (liability) asset	$ (8,477)	$ 17,269

The net non-current deferred tax asset and liability is recorded in the Consolidated Balance Sheets as follows:

(Dollars in thousands)	Feb. 26, 2000	Feb. 27, 1999
Other assets	$ 49,992	$59,651
Non-current liability	(58,469)	(42,382)
Net non-current deferred income tax (liability) asset	$ (8,477)	$17,269

RETIREMENT PLANS AND BENEFITS

Defined Benefit Plans

The Company provides retirement benefits to certain non-union and union employees under various defined benefit plans. The Company's defined benefit pension plans are non-contributory and benefits under these plans are generally determined based upon years of service and, for salaried employees, compensation. The Company funds these plans in amounts consistent with the statutory funding requirements.

During fiscal 1998, the Company adopted SFAS No. 132, "Employers' Disclosure about Pension and Postretirement Benefits" ("SFAS 132"). SFAS 132 standardizes the disclosure requirements for pension and other postretirement benefits. This Statement addresses disclosure only. It does not address expense recognition or liability measurement. Accordingly, there was no effect on financial position or net income as a result of adopting SFAS 132.

The components of net pension cost are as follows:

(Dollars in thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Service cost	$16,153	$ 14,014	$ 11,942
Interest cost	26,300	25,872	26,192
Expected return on plan assets	(34,890)	(32,040)	(31,279)
Amortization of unrecognized net asset	(1,194)	(1,184)	(1,244)
Amortization of unrecognized net prior service cost	1,240	1,237	1,158
Amortization of unrecognized net actuarial loss	730	506	380
Curtailments and settlements	1,205	863	-
Net pension cost	$ 9,544	$ 9,268	$ 7,149

The Company's defined benefit pension plans are accounted for on a calendar year basis. The majority of plan assets is invested in listed stocks and bonds. The following tables set forth the change in benefit obligations and change in plan assets for fiscal 1999 and 1998 for the Company's defined benefit plans:

(Dollars in thousands)		
Change in Benefit Obligation	1999	1998
Benefit obligation – beginning of year	$423,156	$403,970
Service cost	16,153	14,014
Interest cost	26,300	25,872
Actuarial (gain) loss	(60,065)	18,991
Benefits paid	(26,195)	(24,948)
Amendments	1,721	167
Curtailments and settlements	1,182	460
Effect of exchange rates	11,362	(15,370)
Benefit obligation – end of year	$393,614	$423,156
Change in Plan Assets		
Plan assets at fair value – beginning of year	$458,663	$444,408
Actual return on plan assets	9,023	46,412
Company contributions	9,865	10,019
Benefits paid	(26,195)	(24,948)
Effect of exchange rates	13,082	(17,228)
Plan assets at fair value – end of year	$464,438	$458,663

Notes to Consolidated Financial Statements (cont.)

Amounts recognized in the Company's Consolidated Balance Sheets consist of the following:

(Dollars in thousands)	1999	1998
Plan assets in excess of projected benefit obligation	$ 70,824	$ 35,507
Unrecognized net transition asset	(3,013)	(4,078)
Unrecognized prior service cost	6,262	5,407
Unrecognized net actuarial gain	(43,891)	(8,105)
Total recognized in the Consolidated Balance Sheets	$ 30,182	$ 28,731
Prepaid benefit cost	$ 56,529	$ 51,480
Accrued benefit liability	(31,504)	(33,198)
Intangible asset	236	2,734
Other comprehensive income	2,729	4,288
Tax benefit	2,192	3,427
Total recognized in the Consolidated Balance Sheets	$ 30,182	$ 28,731

Plans with accumulated benefit obligation in excess of plan assets consist of the following:

Accumulated benefit obligation	$ 92,973	$ 111,738
Projected benefit obligation	$ 97,114	$ 116,800
Plan assets at fair value	$ 69,480	$ 85,199

The prepaid pension asset is included in other assets while the pension liability is included in accrued salaries, wages and benefits and other non-current liabilities.

At February 26, 2000 and February 27, 1999, the Company's additional minimum pension liability for its defined benefit plans was in excess of the unrecognized prior service costs and net transition obligation and accordingly, $2.7 million and $4.3 million, each net of income tax benefits was reflected as a reduction to shareholders' equity, respectively.

During the year ended February 25, 1995, the Company's Canadian subsidiary and the United Food & Commercial Workers International Union, Locals 175 and 633, entered into an agreement which will result in the amalgamation of three of the Company's Canadian defined benefit pension plans with the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), retroactive to July 1, 1994, subject to the approval of the CCWIPP trustees and the appropriate regulatory bodies. Under the terms of this agreement, CCWIPP will assume the assets and defined benefit liabilities of the three pension plans and the Company will be required to make defined contributions to CCWIPP based upon hours worked by employees who are members of CCWIPP. The Company expects that the necessary approvals will be received during fiscal 2000. The transfer to CCWIPP has been delayed for the past five years as the regulatory bodies have taken longer to review the transfer than originally anticipated. The Company will not change the reporting for these three plans until such approval is received. Accordingly, at February 26, 2000 and February 27, 1999, prepaid pension assets of approximately $16 million related to the aforementioned plans are included in the table herein.

Actuarial assumptions used to determine year-end plan status are as follows:

	1999		1998	
	U.S.	Canada	U.S.	Canada
Weighted average discount rate	7.75%	7.50%	6.50%	6.25%
Weighted average rate of compensation increase	4.75%	4.00%	4.00%	4.00%
Expected long-term rate of return on plan assets	8.75%	8.40%	8.00%	8.40%

The impact of the changes in the actuarial assumptions has been reflected in the funded status of the pension plans and the Company believes that such changes will not have a material effect on net pension cost for fiscal 2000.

Defined Contribution Plans

The Company maintains a defined contribution retirement plan to which the Company contributes an amount equal to 4% of eligible participants' salaries and a savings plan to which eligible participants may contribute a percentage of eligible salary. The Company contributes to the savings plan based on specified percentages of the participants' eligible contributions. Participants become fully vested in the Company's contributions after 5 years of service. The Company's contributions charged to operations for both plans were approximately $11 million in each of the three fiscal years 1999, 1998 and 1997.

Multi-employer Union Pension Plans

The Company participates in various multi-employer union pension plans which are administered jointly by management and union representatives and which sponsor most full-time and certain part-time union employees who are not covered by the Company's other pension plans. The pension expense for these plans approximated $32 million in fiscal 1999, $34 million in fiscal 1998 and $38 million in fiscal 1997. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans. At this time, the Company has not established any

Notes to Consolidated Financial Statements (cont.)

liabilities for future withdrawals because such withdrawals from these plans is not probable.

Postretirement Benefits

The Company provides postretirement health care and life benefits to certain union and non-union employees. The Company recognizes the cost of providing postretirement benefits during employees' active service period.

The components of net postretirement benefits cost are as follows:

(Dollars in thousands)	Fiscal 1999	Fiscal 1998	Fiscal 1997
Service cost	$ 548	$ 1,666	$ 788
Interest cost	1,977	3,464	2,518
Prior service cost	(1,347)	(263)	-
Amortization of (gain) loss	(509)	27	(1,056)
Net postretirement benefits cost	$ 669	$ 4,894	$ 2,250

The unfunded status of the plans is as follows:

(Dollars in thousands)	Fiscal 1999	Fiscal 1998
Unfunded accumulated benefit obligation at beginning of year	$36,690	$ 48,980
Service cost	548	1,666
Interest cost	1,977	3,464
Benefits paid	(1,782)	(2,790)
Actuarial (gain) loss	(9,533)	1,837
Plan amendment	-	(16,162)
Foreign exchange	290	(305)
Accumulated benefit obligation at end of year	28,190	36,690
Unrecognized net gain from experience differences	9,191	221
Unrecognized prior service cost	14,552	15,899
Accrued postretirement benefit costs at end of year	$51,933	$52,810
Assumed discount rate:		
U.S.	7.75%	6.50%
Canada	7.50%	6.50%

The assumed rate of future increase in health care benefit cost for fiscal 1999 was 9.25% and is expected to decline to 5.0% by the year 2020 and remain at that level thereafter. The effect of a 1% change in the assumed health care cost trend rate for each future year on the net postretirement health care cost would either increase by $0.3 million or decrease by $0.2 million, while the accumulated postretirement benefit obligation would either increase by $3.0 million or decrease by $2.5 million.

Postemployment Benefits

The Company accrues costs for preretirement, postemployment benefits provided to former or inactive employees and recognizes an obligation for these benefits. The costs of these benefits have been included in operations for each of the three fiscal years in the period ended February 26, 2000. As of February 26, 2000 and February 27, 1999, the Company has a liability reflected in the Consolidated Balance Sheets of $25 million and $24 million, respectively, with respect to such benefits.

STOCK OPTIONS

At February 26, 2000, the Company has four fixed stock-based compensation plans. The Company applies the principles of APB 25 for stock options and FASB Interpretation No. 28 for Stock Appreciation Rights ("SAR's"). Most of the options and SAR's vest over a four year period on the anniversary date of issuance, while some options vest immediately.

Effective July 13, 1999, the Board of Directors and shareholders approved the 1998 Long Term Incentive and Share Award Plan (the "1998 Plan") for its officers and key employees. The 1998 Plan provides for the granting of 5,000,000 shares as options, SAR's or stock awards.

The Company's 1994 Stock Option Plan (the "1994 Plan") for officers and key employees provided for the granting of 1,500,000 shares as either options or SAR's. The 1,500,000 shares to be granted under the 1994 Plan were fully utilized as of February 26, 1999. The 1984 Stock Option Plan for officers and key employees, which expired on February 1, 1994, provided for the granting of 1,500,000 shares and was amended as of July 10, 1990 to increase by 1,500,000 the number of options available for grant as either options or SAR's.

The 1994 Stock Option Plan for Board of Directors provides for the granting of 100,000 stock options at the fair market value of the Company's common stock at the date of grant. Options granted under this plan totaled 3,600 in fiscal 1999 and 1,600 in both fiscal 1998 and 1997.

Options and SAR's issued under all of the Company's plans are granted at the fair market value of the Company's common stock at the date of grant. SAR's allow the holder, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price. In fiscal 1999, 488,050 options were granted under the 1998 Plan. There were no SAR's granted during fiscal 1999.

The Company accounts for stock options using

Notes to Consolidated Financial Statements (cont.)

the intrinsic value-based method prescribed by APB 25. Had compensation cost for the Company's stock options been determined based on the fair value at the grant dates for awards under those plans consistent with the fair value methods prescribed by SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

(Dollars in thousands, except per share amounts)

	Fiscal 1999	Fiscal 1998	Fiscal 1997
Net income (loss):			
As reported	$14,160	$(67,164)	$63,042
Pro forma	$11,275	$(68,987)	$61,584
Net income (loss) per share - basic and diluted:			
As reported	$ 0.37	$ (1.75)	$ 1.65
Pro forma	$ 0.29	$ (1.80)	$ 1.61

The pro forma effect on net income and earnings per share may not be representative of the pro forma effect in future years because it includes compensation cost on a straight-line basis over the vesting periods of the grants and does not take into consideration the pro forma compensation costs for grants made prior to fiscal 1995.

The fair value of the fiscal 1999, 1998 and 1997 option grants was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: fiscal 1999, 1998 and 1997; expected volatility of 30% and expected life of 7 years for all three years. The dividend yield was between 1.08% and 1.42% in fiscal 1999 and 1.23% and 1.63% in both fiscal 1998 and 1997. The risk-free interest rates used for the grants are between 5.37% and 6.78% in fiscal 1999, 5.14% and 5.63% in fiscal 1998 and 6.11% and 6.84% in fiscal 1997.

For fiscal 1999, the Company recognized a $3.1 million credit to reverse previously accrued SAR compensation charges due to the decline in the Company's stock price. The Company recognized compensation expense of $0.6 million and $1.4 million in fiscal 1998 and 1997, respectively, with respect to SAR's. There was no compensation expense recognized for the other fixed plans since the exercise price of the stock options equaled the fair market value of the Company's common stock on the date of grant.

A summary of option transactions is as follows:

Officers, Key Employees and Directors	Shares	Weighted Average Exercise Price
Outstanding February 22, 1997	725,067	$27.66
Granted	329,100	28.06
Cancelled or expired	(98,967)	27.76
Exercised	(5,250)	27.88
Outstanding February 28, 1998	949,950	$27.78
Granted	897,600	31.32
Cancelled or expired	(10,000)	27.88
Exercised	(37,750)	27.88
Outstanding February 27, 1999	1,799,800	$29.55
Granted	491,650	32.35
Cancelled or expired	(211,000)	29.69
Exercised	(56,500)	26.64
Outstanding February 26, 2000	2,023,950	$30.30
Exercisable at:		
February 27, 1999	499,399	$27.68
February 26, 2000	811,450	$28.61

Following are the weighted average fair values of options granted during the years ended:

February 28, 1998	$10.96
February 27, 1999	$11.72
February 26, 2000	$12.64

A summary of stock options outstanding and exercisable at February 26, 2000 is as follows:

	Options Outstanding			Options Exercisable	
Average Range Of Exercise Prices	Number Outstanding at Feb. 26, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at Feb. 26, 2000	Weighted Average Exercise Price
$21.50 - $26.13	51,200	6.4 years	$24.72	38,700	$24.27
$26.50 - $27.50	128,600	6.6 years	$27.28	86,816	$27.27
$27.63 - $27.75	116,200	6.4 years	$27.73	66,200	$27.72
$27.88	392,750	5.3 years	$27.88	392,750	$27.88
$28.25 - $30.00	38,000	9.8 years	$28.91	-	-
$30.25 - $32.56	870,800	8.8 years	$31.40	226,984	$31.39
$32.44 - $37.00	426,400	9.3 years	$32.67	-	-
	2,023,950			811,450	

A summary of SAR transactions is as follows:

Officers and Key Employees	Shares	Price Range Per Share
Outstanding February 22, 1997	1,972,013	$21.88 - $65.13
Granted	10,000	- 26.63
Cancelled or expired	(136,750)	23.38 - 52.38
Exercised	(187,275)	23.00 - 27.25
Outstanding February 28, 1998	1,657,988	$21.88 - $65.13
Cancelled or expired	(388,625)	27.45 - 46.38
Exercised	(89,644)	21.88 - 27.25
Outstanding February 27, 1999	1,179,719	$21.88 -$65.13
Cancelled or expired	(212,250)	23.38 - 65.13
Exercised	(84,707)	21.88 - 27.25
Outstanding February 26, 2000	882,762	$21.88 - $52.38
Exercisable at:		
February 27, 1999	1,138,969	$21.88 - $65.13
February 26, 2000	866,137	$21.88 - $52.38

Notes to Consolidated Financial Statements (cont.)

LITIGATION

On August 28, 1998, Capital Graphics Advertising Agency, Inc. ("Capital Graphics") was awarded a verdict against the Company amounting to $4 million. This lawsuit is the result of the Company terminating a relationship with an Atlanta printer, which the Company felt that it had a right to terminate. However, a jury awarded Capital Graphics damages, plus interest and litigation expenses totaling $4 million. During fiscal 1998, the Company recorded a $4 million charge included in store operating, general and administrative expense. The Company believes that it has several strong bases for the appellate court to set aside the jury's verdict and order a new trial. Accordingly, the Company has proceeded with an appeal, which has been argued and is currently under review by the court.

The action entitled *Shirley A. Lang, et al. v. Kohl's Food Stores, Inc. and The Great Atlantic & Pacific Tea Company, Inc.* was tried to a Madison, Wisconsin jury the week commencing August 9, 1999. The issue before the jury was the alleged violation of the Federal Equal Pay Act stemming from the complaint that Kohl's produce clerk and produce manager positions allegedly pay more than Kohl's bakery and deli clerk and manager positions, but allegedly require no greater skill than the produce positions. The plaintiffs sought lost wages, punitive damages and other benefits, costs and attorney's fees and other relief. In July the court had granted summary judgment to the defendants in respect of the alleged violations of the Civil Rights Act of 1964 ("Title VII"), arising out of the same produce/bakery deli pay differential allegations. On August 13, 1999, the jury returned a unanimous verdict in favor of the defendants (i.e., the Company and its Kohl's Food Stores, Inc. subsidiary). An appeal has been filed and will be contested vigorously by the Company.

On January 13, 2000, the Attorney General of the State of New York filed an action in New York Supreme Court, City of New York alleging that the Company and its subsidiary, Shopwell, Inc., together with the Company's outside delivery service, Chelsea Trucking, Inc., violated New York law by failing to pay minimum and overtime wages to individuals who deliver groceries at a Food Emporium store in New York City. The complaint seeks a determination of violation of law, an unspecified amount of restitution, an injunction and costs. A purported class action lawsuit was filed on January 13, 2000 in the federal district court for the Southern District of New York against the Company, Shopwell, Inc. and others by Faty Ansoumana and others. The federal court action makes similar minimum wage and overtime pay allegations under both federal and state law and extends the allegations to various stores operated by the Company. The Company plans to vigorously defend both actions, on the ground among others, that the individuals in question are not employees of the Company.

The Company is involved in various other claims, administrative agency proceedings and lawsuits arising out of the normal conduct of its business. Although the ultimate outcome of these legal proceedings cannot be predicted with certainty, the Management of the Company believes that the resulting liability, if any, will not have a material effect upon the Company's consolidated financial statements or liquidity.

SUPPLY CHAIN INITIATIVE - GREAT RENEWAL - PHASE II

On March 13, 2000, the Company announced the second phase of its Project Great Renewal, to develop a state-of-the-art supply and business management infrastructure. As of February 26, 2000, the Company has committed to approximately $2 million of software purchases and consulting services, which become due in fiscal 2000. Additionally, subsequent to February 26, 2000 and through April 5, 2000, the Company has entered into agreements with a number of technology hardware, software and consulting suppliers, committing the Company to additional purchases totaling approximately $46 million. Of this amount, approximately $25 million becomes due in fiscal 2000, and approximately $21 million becomes due in fiscal 2001.

Notes to Consolidated Financial Statements (cont.)

OPERATING SEGMENTS

During the fourth quarter of fiscal 1998, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). This statement establishes standards for reporting information about operating segments in annual financial statements and selected information in interim financial statements. It also establishes standards for related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer.

The Company currently operates in three reportable segments: United States Retail, Canada Retail and Wholesale. The retail segments are comprised of retail supermarkets in the United States and Canada, while the Wholesale segment is comprised of the Company's Canadian operation that serves as exclusive wholesaler to the Company's franchised stores and serves as wholesaler to certain third party retailers.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies. The Company measures segment performance based upon operating profit.

Information on segments is as follows:

(Dollars in thousands)

Fiscal 1999

	United States Retail	Canada Retail	Wholesale	Total Company
Sales	$7,981,134	$1,646,712	$523,488	$10,151,334
Depreciation and amortization	204,975	27,413	324	232,712
Operating income	69,703	17,029	18,098	104,830
Interest expense	(70,097)	(11,504)	(2,444)	(84,045)
Interest income	317	2,521	3,380	6,218
(Loss) income before taxes	(77)	8,046	19,034	27,003
Total assets	2,684,624	567,573	83,328	3,335,525
Capital expenditures	416,863	61,444	1,265	479,572

Fiscal 1998

	United States Retail	Canada Retail	Wholesale	Total Company
Sales	$8,276,493	$1,515,602	$387,263	$10,179,358
Depreciation and amortization	209,656	23,990	17	233,663
Operating (loss) income	(186,558)	11,317	10,850	(164,391)
Interest expense	(58,389)	(11,485)	(1,623)	(71,497)
Interest income	876	2,686	3,042	6,604
(Loss) income before taxes	(244,071)	2,518	12,269	(229,284)
Total assets	2,601,113	504,926	54,775	3,160,814
Capital expenditures	376,688	61,657	-	438,345

Fiscal 1997

	United States Retail	Canada Retail	Wholesale	Total Company
Sales	$8,344,253	$1,577,742	$340,248	$10,262,243
Depreciation and amortization	209,521	24,699	16	234,236
Operating income	109,501	40,088	5,670	155,259
Interest expense	(65,968)	(13,179)	(1,005)	(80,152)
Interest income	2,110	2,639	3,044	7,793
Income before taxes and extraordinary item	45,643	29,548	7,709	82,900
Total assets	2,521,008	417,064	57,181	2,995,253
Capital expenditures	243,442	24,181	-	267,623

Geographic Areas

Fiscal 1999

	United States	Canada	Total Company
Sales	$7,981,134	$2,170,200	$ 10,151,334
Long-lived assets	1,652,094	265,818	1,917,912

Fiscal 1998

	United States	Canada	Total Company
Sales	$8,276,493	$1,902,865	$10,179,358
Long-lived assets	1,528,249	204,687	1,732,936

Fiscal 1997

	United States	Canada	Total Company
Sales	$8,344,253	$1,917,990	$10,262,243
Long-lived assets	1,469,641	175,174	1,644,815

Summary of Quarterly Results (unaudited)

The following table summarizes the Company's results of operations by quarter for fiscal 1999 and 1998. The first quarter of each fiscal year contains sixteen weeks, while the other quarters each contain twelve weeks.

(Dollars in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1999					
Sales	$3,113,722	$2,284,380	$2,332,128	$2,421,104	$10,151,334
Gross margin	871,589	661,301	676,288	698,438	2,907,616
Depreciation and amortization	69,966	52,336	54,306	56,104	232,712
Income (loss) from operations	(9,710)	26,368	56,084	32,088	104,830
Interest expense	24,394	17,910	20,308	21,433	84,045
Net income (loss)	(19,546)	5,378	21,354	6,974	14,160
Per share data:					
Net income (loss) - basic and diluted	(.51)	.14	.56	.18	.37
Cash dividends	.10	.10	.10	.10	.40
Market price:					
High	34.25	37.38	36.94	28.88	
Low	29.13	32.06	25.44	23.38	
Number of stores at end of period	759	749	758	750	
Number of franchised stores served at end of period	57	62	62	65	
1998					
Sales	$3,078,386	$2,330,249	$2,344,400	$2,426,323	$10,179,358
Gross margin	886,313	673,278	679,714	679,943	2,919,248
Depreciation and amortization	72,194	54,167	55,081	52,221	233,663
Income (loss) from operations	44,231	28,653	(1,749)	(235,526)	(164,391)
Interest expense	21,032	15,781	16,212	18,472	71,497
Net income (loss)	19,169	10,951	(8,734)	(88,550)	(67,164)
Per share data:					
Net income (loss) - basic and diluted	.50	.29	(.23)	(2.31)	(1.75)
Cash dividends	.10	.10	.10	.10	.40
Market price:					
High	34.25	33.63	27.63	34.00	
Low	29.63	23.56	22.13	25.43	
Number of stores at end of period	919	913	907	839	
Number of franchised stores served at end of period	53	53	55	55	

Management's Report on Financial Statements

The Management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to the business and, by necessity and circumstance, include some amounts which were determined using Management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, Management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide reasonable assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with Management, internal auditors and the independent auditors, Deloitte & Touche LLP, to review each of their respective activities.

Christian W.E. Haub
President
and Chief Executive Officer

Fred Corrado
Vice Chairman of the Board
and Chief Financial Officer

Independent Auditors' Report

To the Shareholders and Board of Directors of
The Great Atlantic & Pacific Tea Company, Inc.:

We have audited the accompanying consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 26, 2000 and February 27, 1999 and the related statements of consolidated operations, consolidated shareholders' equity and comprehensive income (loss), and consolidated cash flows for each of the three fiscal years in the period ended February 26, 2000. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies at February 26, 2000 and February 27, 1999 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 26, 2000 in conformity with generally accepted accounting principles.

Deloitte & Touche LLP
Parsippany, New Jersey
April 5, 2000

Five Year Summary of Selected Financial Data

(Dollars in thousands, except per share data)	Fiscal 1999 (52 weeks)	Fiscal 1998 (52 weeks)	Fiscal 1997 (53 weeks)	Fiscal 1996 (52 weeks)	Fiscal 1995 (52 weeks)
Operating Results					
Sales	$10,151,334	$10,179,358	$10,262,243	$10,089,014	$10,101,356
Income (loss) from operations	104,830	(164,391)	155,259	169,303	151,734
Depreciation and amortization	232,712	233,663	234,236	230,748	225,449
Interest expense	84,045	71,497	80,152	73,208	73,143
Income (loss) before extraordinary item	14,160	(67,164)	63,586	73,032	57,224
Extraordinary loss on early extinguishment of debt	-	-	(544)	-	-
Net income (loss)	14,160	(67,164)	63,042	73,032	57,224
Per Share Data					
Income (loss) before extraordinary item - basic and diluted	.37	(1.75)	1.66	1.91	1.50
Extraordinary loss on early extinguishment of debt - basic and diluted	-	-	(0.01)	-	-
Net income (loss) - basic and diluted	.37	(1.75)	1.65	1.91	1.50
Cash dividends	.40	.40	.40	.20	.20
Book value per share	22.07	21.87	24.22	23.27	21.53
Financial Position					
Current assets	1,222,883	1,243,110	1,217,227	1,231,379	1,174,935
Current liabilities	1,124,578	1,134,063	955,130	1,016,005	983,968
Working capital	98,305	109,047	262,097	215,374	190,967
Current ratio	1.09	1.10	1.27	1.21	1.19
Expenditures for property	479,572	438,345	267,623	296,878	236,139
Total assets	3,335,525	3,160,814	2,995,253	3,002,672	2,860,847
Current portion of long-term debt	2,382	4,956	16,824	18,290	13,040
Current portion of capital lease obligations	11,327	11,483	12,293	12,708	13,125
Long-term debt	865,675	728,390	695,292	701,609	650,169
Long-term portion of capital lease obligations	117,870	115,863	120,980	137,886	129,887
Total debt	997,254	860,692	845,389	870,493	806,221
Debt to total capitalization	54%	51%	48%	49%	49%
Equity					
Shareholders' equity	846,192	837,257	926,632	890,072	822,785
Weighted average shares outstanding	38,330,379	38,273,859	38,249,832	38,221,329	38,220,333
Number of registered shareholders	6,890	7,419	8,029	8,808	10,010
Other					
Number of employees	80,900	83,400	79,980	84,000	89,000
New store openings	54	46	40	30	30
Number of stores at year end	750	839	936	973	1,014
Total store area (square feet)	26,904,331	28,736,319	30,574,286	30,587,324	31,101,589
Number of franchised stores served at year end	65	55	52	49	7
Total franchised store area (square feet)	1,908,271	1,537,388	1,389,435	1,345,786	177,936

Executive Officers and Operating Management

MANAGEMENT EXECUTIVE COMMITTEE

Christian W.E. Haub
President and Chief Executive Officer

Fred Corrado
Vice Chairman of the Board,
Chief Financial Officer

Michael J. Larkin
Senior Executive Vice President,
Chief Operating Officer

George Graham
Executive Vice President,
Chief Merchandising Officer

William Costantini
Senior Vice President,
General Counsel and Secretary

Nicholas Ioli, Jr.
Senior Vice President,
Chief Information Officer

Laurane Magliari
Senior Vice President,
People Resources and Services

Brian Pall
Senior Vice President,
Chief Development Officer

Cheryl Palmer
Senior Vice President,
Strategic Marketing

Executive Officers and Operating Management (cont.)

SENIOR OPERATING MANAGEMENT

ATLANTIC REGION
Bill McEwan
President and Chief Executive Officer

MIDWEST REGION
Craig Sturken
Chairman and Chief Executive Officer

SOUTHERN REGION
Donald Dobson
Group Vice President

A&P CANADA
Brian Piwek
Vice Chairman,
President and Chief Executive Officer

COMPASS FOODS/EIGHT O'CLOCK COFFEE
Donald J. Sommerville
President and General Manager

Board of Directors

James Wood (c)
Chairman of the Board

John D. Barline, Esq. (b) (e)
Williams, Kastner & Gibbs LLP,
Tacoma, Washington

Rosemarie Baumeister (b)
Executive Vice President,
Tengelmann Warenhandelsgesellschaft,
Muelheim, Germany

Fred Corrado (c) (d) (e)
Vice Chairman of the Board,
Chief Financial Officer

Christian W.E. Haub (c) (d) (e)
President and Chief Executive Officer

Helga Haub (c) (d)

Barbara Barnes Hauptfuhrer (a) (c) (d) (e)
Director of various corporations

Dan Kourkoumelis
Former President and CEO,
Quality Food Centers, Inc.

William A. Liffers (a) (b) (c)
Former Vice Chairman,
American Cyanamid Company

Richard L. Nolan (a)
William Barclay Harding Professor of Management Technology at the Harvard Business School and member of the Board of Directors for Novell, Surebridge Technologies, and Zefer

Fritz Teelen (d)
Former Chief Operating Officer,
Tengelmann Warenhandelsgesellschaft,
Muelheim, Germany

R.L. "Sam" Wetzel (a) (b) (d) (e)
President and Chief Executive Officer,
Wetzel International, Inc.

(a) Member of Audit Review Committee
William A. Liffers, Chairman

(b) Member of Compensation Policy Committee
John D. Barline, Chairman

(c) Member of Executive Committee
James Wood, Chairman

(d) Member of Finance Committee
R.L. "Sam" Wetzel, Chairman

(e) Member of Retirement Benefits Committee
Barbara Barnes Hauptfuhrer, Chairman

Shareholder Information

Executive Offices
Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone 201-573-9700

Transfer Agent and Registrar
American Stock Transfer
and Trust Company
40 Wall Street
New York, NY 10005
Telephone 212-936-5100

Independent Auditors
Deloitte & Touche LLP
Two Hilton Court
Parsippany, NJ 07054

Shareholder Inquiries and Publications
Shareholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Treasury Department at the Executive Offices in Montvale, New Jersey.

Internet users can access information on A&P at: www.aptea.com

Correspondence concerning shareholder address changes should be directed to:

American Stock Transfer
and Trust Company
40 Wall Street
New York, NY 10005
Telephone 212-936-5100

Form 10-K
Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to shareholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

Annual Meeting
The Annual Meeting of Shareholders will be held at 9:30 a.m. (CDT) on Tuesday, July 11, 2000 at the Windsor Court Hotel
300 Gravier Street
New Orleans, Louisiana. Shareholders are cordially invited to attend.

Common Stock
Common stock of the Company is listed and traded on the New York Stock Exchange under the ticker symbol "GAP" and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges. The stock is reported in newspapers and periodical tables as "GtAtPc".

Financial Calendar
Annual Meeting of Shareholders
July 11, 2000.

Estimated Date of Announcement of Quarterly Results
1st - July 10, 2000
2nd - October 3, 2000
3rd - January 4, 2001
4th - March 27, 2001

Estimated Date of Dividend Payments
1st - April 17, 2000
2nd - August 7, 2000
3rd - November 3, 2000
4th - January 31, 2001

Produced by: The Great Atlantic & Pacific Tea Company, Inc.
Landover Advertising Production Center

e-new (ri-nōō´, -nyōō´)*v.* 1. To make new
r as if new again; restore. 2. To take up
gain; resume. 3. To repeat as to reaffirm.
. To regain (spiritual or physical vigor);
evive. 5. To arrange for extension of:
enew a contract. 6. To replenish. 7. To
ring into being again; re-establish. –
ntr. 1. To become new again. 2. To start
ver [re+new] – re•new´a•ble *adj.*

A&P'S GREAT RENEWAL
THE BEST IS YET TO BE

THE GREAT ATLANTIC & PACIFIC TEA COMPANY, INC.
TWO PARAGON DRIVE, MONTVALE, NEW JERSEY 07645